CUBA

A Guide for Canadian Business

Third Edition

March, 2001

Cuba: A Guide for Canadian Business was developed jointly by The Trade and Economic Section of the Canadian Embassy in Havana, Cuba and the Summit Group.

This business guide is designed to provide an overview of the context for doing business in Cuba. Aussi disponible en français. Although every effort has been made to avoid errors and inaccuracies, this document is not intended to be used as the only source of business information about Cuba.

There is a general lack of official statistics in Cuba and data from different sources is sometimes contradictory. Moreover, Cuban legislation gives wide latitude for bureaucratic interpretation and negotiation with foreign partners. There is, therefore, no definitive law in many areas. Wherever possible the information in this publication has been checked against published sources or verified through interviews with market participants in Cuba.

Information about Cuba is also restricted by the effects of the American embargo against Cuba, especially the Cuban Liberty and Democratic Solidarity (*Libertad*) Act, more commonly known as the Helms-Burton Act. Cuban officials are not releasing information that could help American authorities to identify foreign investors in Cuba. This guide mentions Canadian companies operating in Cuba only in cases where their activities are very well known and have been described widely in the media.

Finally, this publication contains a summary of historical and political issues that affect the business climate in Cuba. For some readers, these issues may seem controversial. The interpretation of historical and political events presented here is consistent with the conclusions of many independent analysts. But it does not represent the views of the Government of Canada or any of the organizations interviewed as part of the research process in this publication. **Neither the authors nor the publishers will assume any responsibility for eventual commercial loss due to business decisions made on the basis of information contained in this book.**

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CUBA TODAY

Cuba is an emerging market with significant potential for Canadian exporters and investors. It comprises half the landmass of the Caribbean, and with a population of about 11 million, it is the largest market in the region. It has a large endowment of fertile land with excellent growing conditions as well as superb unspoiled resources for tourism. It has good ports, with access to the Panama Canal, Mexico and the eastern coast of South America.

On a purchasing power equivalency basis, the United Nations Development Program (UNDP) estimated Cuba's 1998 per capita GDP at US $3,967, below the world average of $6,526, but above the developing country average of $3,270. On the 2000 UN Human Development Index, Cuba ranked 56th out of 174 countries — up from 85th two years earlier, and ahead of most of Latin America and the Russian Federation. Cuba has an extensive industrial infrastructure and a well-trained labour force. But Cuba suffers from serious inefficiencies caused by bureaucratic central planning, outdated and inappropriate technology and poorly motivated workers. Foreign companies now moving into the country can potentially solve these problems.

The attractiveness of these opportunities is mitigated by the continuing embargo of Cuba by the United States, including legislation that attempts to impose American laws on companies in other countries. Canada has enacted amendments to the Foreign Extraterritorial Measures Act (FEMA), which counteract these laws by enabling a "clawback" of any losses in US courts that is enforceable against American assets in Canada. Nonetheless, Canadian companies with assets in the United States will have to consider their actions in Cuba very carefully.

While these American laws increase the risk for Canadian companies moving into the Cuban market, they also prevent American competitors from entering the market, except sporadically and through circuitous means. Partly for this reason, Cuba offers a variety of opportunities for new market entrants. Canadian companies who are used to taking on entrenched American competitors in other Latin American markets will find a much different environment in Cuba, where the principal competitors are from Latin America (especially Mexico) and Europe (especially Spain, Italy and France), as well as from Asia.

In spite of these attractions, Cuba is definitely not for the timid or the unprepared. The country has a high-risk business environment, where many foreign ventures have failed. Companies moving into Cuba today face a regulatory regime that is less than transparent even by developing country standards. Negotiations with government entities are characterized by deep distrust of capitalist motives and abrupt changes in position. Even after a deal has been reached through good faith bargaining with Cuban negotiators, senior officials may demand amendments. Some Cuban government companies can be financially unreliable and collections of even secured debts can be difficult.

Business ethics have been adversely affected as Cuba's liquidity situation deteriorates. There is a growing concern about the potential instability surrounding the inevitable succession of a new leadership and the eventual end to the American embargo. Canadian investors must balance the advantages of early entry into a dynamic market against the risks of abrupt changes in business conditions.

The companies that succeed are those that arrive with a solid medium-term business strategy and the resources and staying power needed to establish a high profile in the Cuban market. Officials of the Department of Foreign Affairs and International Trade suggest that the Cuban market is appropriate only for companies with annual sales in excess of $1 million. They add that the company should be prepared to commit an executive at least halftime, with a minimum promotion budget in the order of $100,000 per year, and it should not expect to earn a return within the first two or three years.

Companies that have completed basic market research, assessed the risks, prepared a business plan, and committed adequate resources can seek assistance from the Trade Commissioner Service of the Canadian Embassy in Havana. Embassy staff can often help to identify potential customers or partners, arrange introductions, and make representations to Cuban government officials. But there are limits to Embassy resources. The staff cannot serve as hand-holders for the unprepared entrepreneur on a general reconnaissance mission. Moreover, the Trade Commissioners expect to deal with the principals of visiting companies, and must be cautious about making inappropriate introductions that could reflect badly on other Canadian companies. Two weeks notice is generally required to make appointments with trade section staff. Above all else, it is important for companies to prepare a solid market entry plan that will facilitate subsequent assistance from the Embassy.

HISTORY AND CULTURE

The present political and economic environment of Cuba is strongly affected by its history, especially over the past 50 years. A basic appreciation of this history is an essential prerequisite for understanding the present commercial environment, with its intense political and cultural undercurrents. Successful Canadian business executives interviewed for this guide emphasize that an in-depth understanding of Cuban history can open many doors. One of them recommends visiting a local museum as a means of further appreciating Cuban history and culture. The best ones are the *Palacio de los Capitanes Generales* and *Museo de La Ciudad*, located in the *Plaza de Armas* in Old Havana. The *Museo de la Revolución* is another popular Havana museum. The major tourist guidebooks also contain historical information.

COLONIAL PERIOD

Prior to the Spanish conquest, Cuba was populated by three groups of aboriginal people numbering somewhere between 50,000 and 120,000 persons. They were eventually decimated by the Spanish, who subsequently imported some 750,000 African slaves to provide labour for sugar and tobacco plantations. Almost half of Cubans are black or mulatto. About 2 percent are descendants of Chinese immigrants who came to build the railroads. The white Cubans who make up the rest of the population are descended from Europeans, mostly the Spanish.

Diego Velázquez led the first permanent settlement in 1511 when he founded Baracoa, on the north coast of the present-day Guantánamo province. Initially the conquistadors benefited from Spain's system of *encomienda*, which granted each one a number of Indians from whom tributes could be extracted. But the aboriginal people were virtually wiped out by mistreatment, disease and their use in exploratory expeditions to Florida and the Gulf Coast. Because of Cuba's strategic location, the Spanish used the island mainly as a naval base and shipping centre.

Havana was occupied briefly by the British between 1762 and 1763, a period which was followed by a number of reforms instituted by Charles III of Spain. By 1860 Cuba's population had grown to an estimated 1.3 million, with an economy based mainly on the sugar industry. In that year, Cuba produced nearly one-third of the world's sugar and was a major supplier to the United States. Slavery was a major factor in the expansion of the sugar industry, and it was not finally abolished in Cuba until 1886. There was considerable interest in the country from American plantation owners, and there were a number of attempts to buy the island from Spain. British capital and subsequently American capital began to play a major role in the economy during this period.

WARS OF INDEPENDENCE

Growing Cuban nationalism led to two wars of independence. The first, the Ten Years' War (1868 to 1878), was inconclusive. Reforms promised by Spain at the end of the war did not materialize, and in 1895 another revolution broke out under the leadership of the legendary poet, José Martí. He was killed in battle in the first year of the war, and remains a revered martyr in Cuba today. Over the next three years, continuing battles between the revolutionaries and some 200,000 Spanish troops severely damaged the country. Following an unexplained explosion aboard the USS Maine in Havana Harbour, the US joined the civil dispute on the side of the rebels, declaring war against Spain on April 25, 1898.

AMERICAN INFLUENCE

Hostilities between the US and Spain ceased in August 1898, and in the subsequent Treaty of Paris, Spain ceded possession of Puerto Rico, Guam, the Philippines and Cuba. Cuba became "independent" on January 1, 1899 as an American protectorate. The new constitution included clauses imposed upon Cuba by the US under the Platt Amendment, which seriously compromised Cuban sovereignty. The US intervened militarily on subsequent occasions to support the parties it favoured. Governments of this period were characterized by corruption, racism and violence.

These events are interpreted differently by Cuban and American observers. The Cuban view is that the US intervened to keep the independence movement from succeeding, and that Cuba effectively remained a colony until independence was achieved for the first time in 1959. The official US State Department view is that Cuba achieved independence in 1898 with American help and that subsequent interventions by the US were "to preserve Cuban independence and stability."

The events of this period are somewhat more complex than either interpretation might suggest. In 1934, under the so-called "good neighbour policy", Franklin D. Roosevelt sponsored initiatives that abrogated the Platt Amendment, except for continuing rights to the American naval base at Guantánamo Bay. The figure of former army sergeant Fulgencio Batista dominated much of the next twenty-five years. He overthrew the former president, Machado, in 1933 with support from the United States. After exercising power directly and through surrogates for several terms, Mr. Batista stepped down and emigrated to Florida in 1944. He returned to Cuba in 1951 to re-enter politics. He displaced the elected government in a coup d'etat in March 1952. His government was recognized by the US within two weeks of the coup, and he subsequently ruled through a brutal and corrupt dictatorship.

THE CASTRO REVOLUTION

These events motivated a revolution, led by Fidel Castro, a young lawyer who was a candidate for the election scheduled for June 1952, but which was cancelled after the coup. On 26 July 1953, Mr. Castro and about 150 young revolutionaries launched simultaneous attacks on the Moncada army barracks in Santiago and another in Bayamo. The attack was unsuccessful and Castro was tried and imprisoned. His defiant courtroom defence is the source of many famous Castro quotations and is regarded by some observers as Cuba's modern declaration of independence. He was released into exile in Mexico in May 1955.

In Mexico, Mr. Castro met the Argentine medical doctor Ernesto "Che" Guevara. They organized a return to Cuba with a force of 85 men on the yacht *Granma*, which departed Mexico on 25 November 1956.

After a perilous journey, the boat ran aground off Los Cayuelos in southeast Cuba on 2 December 1956 and the revolutionaries had to wade ashore. Only 12 of them survived the initial attack, and after escaping into the *Sierra Maestra* Mountains, they became the nucleus of a successful revolution. The *Granma*, which has been restored and is on display in Havana, became a national icon. Che Guevara, who died in Bolivia in 1967 during a failed guerrilla rebellion, is another revered national hero.

Mr. Castro took power on New Year's Day, 1959. At that time, foreign interests (largely American) owned three-quarters of the arable land, 90 percent of transportation, electrical and telecommunications services, and close to half of the sugar industry. Today's socialist Cubans regard 1 January 1959 as the date of the nation's true independence. But the subsequent imposition of a centrally-planned economy — which was not part of the explicit agenda of the original revolutionaries — made it the first communist state in the Western Hemisphere.

The American government initially recognized the Castro regime, but was wary of its new ties with the Soviet Union. The situation deteriorated in early 1960 when American-owned oil refineries in Cuba refused to process oil bought from the Soviets. This provided the impetus for a series of decree laws which ultimately nationalized all of Cuban industry. Initially, the government nationalized the oil companies, followed by the telecommunications company and the sugar plantations. Relations between the US and Cuba fell apart rapidly in a series of retaliatory moves.

Foreign businesses with a book value of around US $1 billion, the bulk of which were American-owned, were nationalized. The Cuban government eventually negotiated compensation agreements with all of the countries involved, except the United States. Cuban officials say that the US refused to negotiate on this issue. They add that by removing Cuba's sugar quota, and subsequently imposing the embargo, the US deprived Cuba of the ability to make compensation in any event. Thirty corporations hold more than half of the value of property claims that are certified by the American government.

One outcome of these events was almost four decades of economic sanctions imposed on Cuba by the United States. This campaign continues to complicate Canadian trade relationships with Cuba. Another outcome was a closer association with the former Soviet Union. Cuban government officials tend to characterize this as a "natural partnership" between socialist countries, and play down the notion that the Cuban economy was externally subsidized. Independent analysts recognize that there were massive subsidies in the order of US $40 billion between 1962 to 1989, some of which was compensation for military cooperation. Cubans point out that Soviet military bases were installed only after the ill-fated invasion of Cuba by Cuban exiles at Playa Girón and the Bay of Pigs, which was sponsored by the United States. But Cuba was also involved in efforts to export its model of revolution in Latin America and Africa, which damaged some of its relationships.

THE SOVIET BREAKUP

The latest chapter of Cuba's economic history began before the break-up of the former USSR in 1991. The size of the investment and trade relationship began to decline as reforms proceeded in the Soviet Union. Although it is usually expressed in muted terms, there is some recognition in Cuba that the "partnership" with the Soviets led to a highly concentrated industrial structure that was over-specialized in a few commodities and highly fuel inefficient. In particular, the sugar industry was operating at a level of production that was unsustainable at market prices. According to independent estimates, the real gross domestic product (GDP) fell by more than 40 percent between 1989 and 1993, when the former Soviet bloc countries terminated the special trade and financing arrangements.

THE CURRENT ENVIRONMENT

Cuba is now officially open to investment and trade from market economies in most sectors. But Canadian businesses interested in entering the Cuban market should avoid the assumption that Cuba is desperate as a result of the loss of Soviet aid. The nation has fairly normal trading relationships with nearly every nation in the world with the notable exception of the United States and the new investment law of 1995 has attracted some foreign investors. According to Cuban government sources, the economy has continued to recover over seven straight years, with real gross domestic product (GDP) growth estimated at more than 5 percent for 2000. Independent experts point out, however, that due to currency accounting anomalies, official figures can be difficult to properly analyze.

The country is still short of restoring the 1989 GDP level, but Cubans are proud of their systems of education and health care, which lead much of Latin America. They feel strongly about their culture and independence. Many Cubans are also proud of their maintenance of an egalitarian health and education system and equitable distribution of income, notwithstanding recent shortages. This pride is reflected on billboards throughout Havana: "200 million children of the world are sleeping in the streets. None of them is Cuban."

On the other hand, income distribution has been skewed by a number of developments, including the legalization of foreign currency, the growth in tourism and foreign investment, and greater recognition of the importance of production-based performance incentives. These changes have given some Cubans better access to US dollars and other incentives than others. In an attempt to correct this situation, the government imposes substantial mark-ups on transactions occurring in hard currency. Government-owned dollar stores operate under a system known as *Tiendas de Recaudación de Divisas* (TRD). The retail price is calculated by a formula of cost times 2.4.

Geography

The *República de Cuba* is located in the Atlantic Ocean, slightly south of the Tropic of Cancer. The nation consists of one large island and about 1,600 smaller islands and cays with a total land area of about 114,000 square kilometres. The capital city of Havana is approximately 150 kilometres south of Key West, Florida, and roughly 4,000 kilometres south of Windsor, Ontario. With a population of about 11 million, Cuba is the largest country in the West Indies, comprising more than half of the region's land mass.

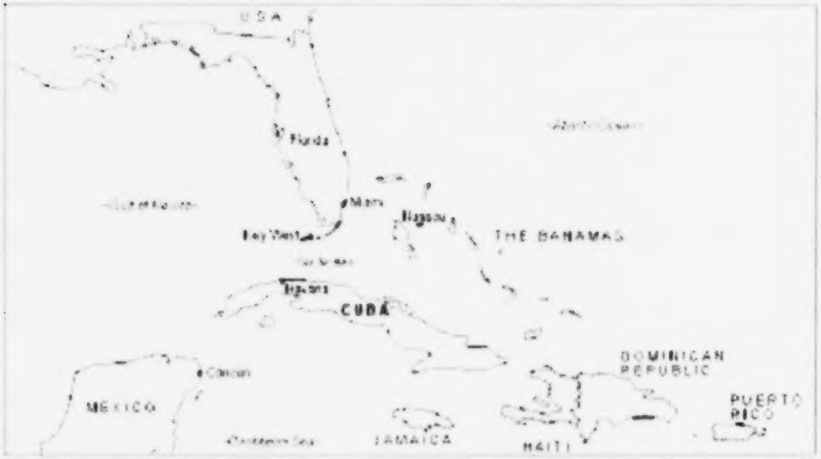
Three mountain ranges make up about one-quarter of Cuba's land area. The highest peak is *Real del Torquino*, in the eastern *Sierra Maestra* range, which reaches almost 2,000 metres above sea level. The rest of the country is mostly plains and basins.

Havana has a population of some 2.7 million. Other major cities are Santiago de Cuba, Santa Clara, Holguín, Camagüey, Matanzas and Cienfuegos.

The average temperature in January, mid-way through the dry season, is 23 degrees Celsius. The August average is 28 degrees with high humidity. The period from September to November is hurricane season.

Timber resources include tropical pine, mahogany, ebony, royal palm, and *ceiba*. Citrus, avocado and papaya trees are grown, and other crops include sugar cane, coffee, potatoes, rice and tobacco. Cuba also has substantial proven mineral resources and the potential for discovering additional deposits, especially nickel-cobalt with some copper, silver and gold. It is also a petroleum producer.

THE REPUBLIC OF CUBA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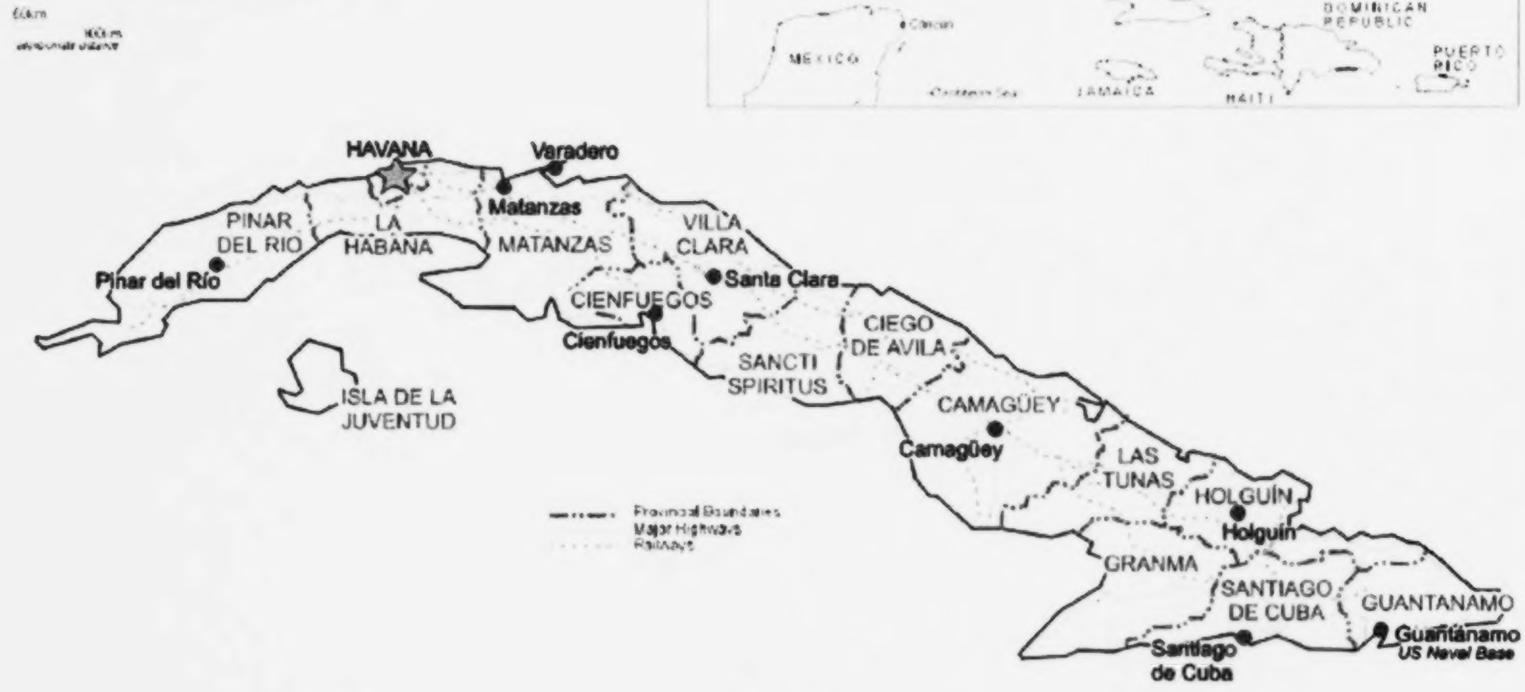
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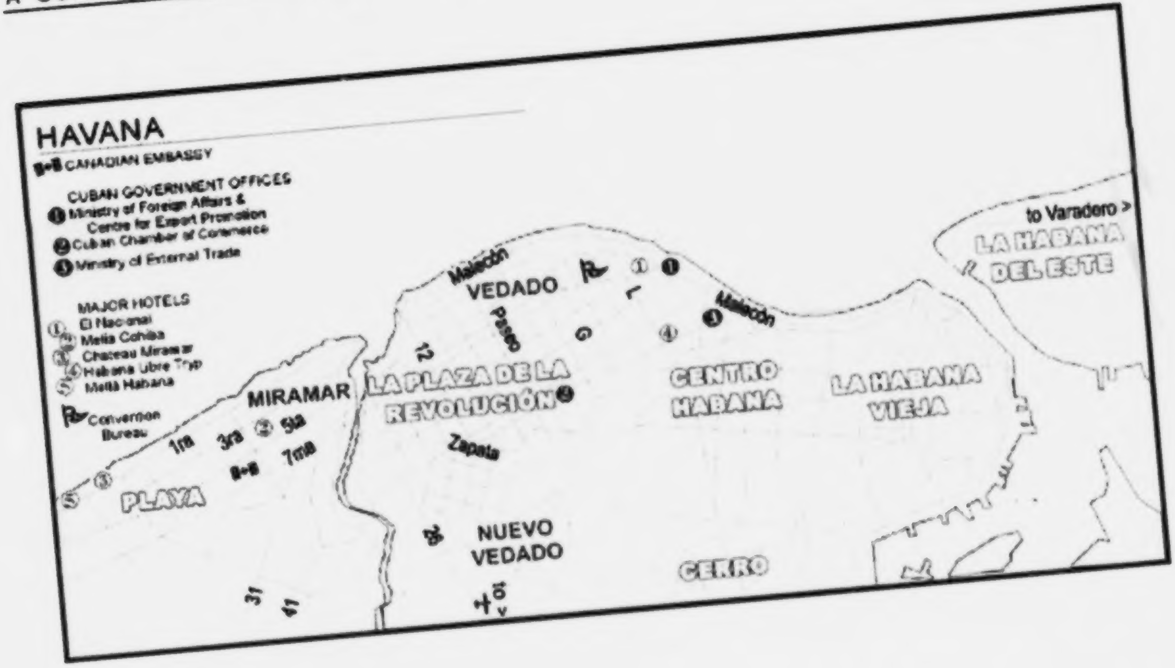
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❷ Cuban Chamber of Commerce
❸ Ministry of External Trade
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① El Nacional
② Melia Cohiba
③ Chateau Miramar
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THE CUBAN ECONOMY

Cuba appears to be in the midst of a gradual transition from a centrally-planned to a mixed economy. Limited autonomous enterprise and partnerships with foreign investors have been established. Cuban authorities stress that they see this as supporting, not undermining socialism. So far, economic policy reform has been cautious, incremental and carefully controlled.

Most external observers believe that market incentives as opposed to government planning will have to become a principal force guiding the economy if the nation is to recover from the present economic situation. Cuba's leaders are struggling to find an acceptable balance between much-needed economic development and subsidies to social programs. There is also concern about the need to avoid the chaos that has characterized some Eastern European market reforms. Official speeches have taken on a more dogmatic socialist tone in recent years as the regime continues to focus efforts on ensuring that socialism remains a lasting legacy irrespective of the inevitable leadership succession or change in the US-Cuba relationship.

THE CASTRO REVOLUTIONARY PERIOD

Virtually all private enterprise of both foreign and Cuban ownership was nationalized in the early 1960s. For many years, Cuba operated under a series of Soviet-style five-year plans, which were eventually coordinated with similar plans of Soviet-bloc countries.

By 1981, sugar production had reached 7.5 million tonnes. Sugar was exchanged for petroleum products and industrial machinery produced by other socialist countries. As a result, Soviet assistance did not result in the development of a diversified economy. But with the help of Soviet subsidies, considerable resources were devoted to developing social goods, including housing, health care, education and the arts. There is an extensive pre-school childcare system. The nation also has a relatively developed biotechnology/pharmaceutical industry, which provided 85 percent of domestic consumption prior to 1990. At the same time, Cuba expended a portion of Soviet assistance to support its revolutionary model and support guerrilla operations in Latin America and major military operations in Africa, including Angola.

THE DRIVE FOR DIVERSIFICATION

In the early 1980s Cuba's economic managers perceived a gap in the technology they were receiving from the Soviet bloc. Cuba was successful in developing a substantial capital goods sector, which grew from 2 percent of gross domestic product (GDP) in 1961 to 29 percent in 1986, but this sector was based on inefficient Eastern bloc technologies. There was a need to diversify the manufacturing industry and studies also showed considerable potential for the tourism industry. Canadian tourists — and Americans travelling mainly through Canada and Mexico — had begun visiting Cuba in the 1970s. Good beaches, hospitable people and a relatively well-educated workforce made Cuba an interesting destination, but the nation lacked the infrastructure and the consumer goods to expand the industry into a major source of export earnings. For these reasons, Cuba looked to the market economies for the expertise it needed to develop the tourism industry.

In February 1982, Decree Law 50 was approved, allowing private investors to form partnerships and other forms of economic association with Cuban government agencies. This initiative was not initially successful. It was not until six years later, after various incentives had been adopted, that any joint projects were actually undertaken.

In 1987, the tourism industry was re-organized to introduce competition. The state-owned firm *Cubanacán* was established to develop the industry by attracting foreign partners. The first joint venture was formed with a Spanish company in 1988 to build and run a hotel in Varadero. This hotel opened in May 1990. By then, the impending break-up of the former Soviet Union led Cuban officials to make a major push towards attracting foreign investment in other sectors as well. In 1990, two more joint ventures were formed and by the end of 1991, there were a total of 14.

THE DECLINE OF THE SOVIET BLOC

Cuba's relationship with the former Soviet Union began to deteriorate after Mikhail Gorbachev rose to power in 1985. In 1986, Cuba suspended payments on almost US $3 billion in foreign debt to western governments and consequently lost access to hard-currency financial markets.

By 1991, Cuba had lost its most important markets and sources of manufactured goods. Soviet military and technical personnel were withdrawn from Cuba, and trade with the members of the former Soviet Union fell by half during the year. The inefficiencies of Cuba's centrally planned economy, which had been largely obscured by external subsidies, suddenly became glaringly apparent. There was a threat that losses from state-owned industrial enterprises would destroy the social achievements of the revolution. Without Soviet subsidies, many state enterprises were closed. Cubans found themselves with a surplus of pesos but nothing to buy.

Increasing pressure on the state to provide basic necessities led to a burgeoning underground economy. Around this time, selected state enterprises were freed to import directly.

It was clear that Cuba would need much more investment from the market economies, and efforts to attract foreign investment were intensified. In 1992, there were 33 new economic association agreements, more than double the number formed in the ten years following the passage of Law 50. The number nearly doubled again to 60 in 1993.

The law required that the Cuban partner hold a majority share. It also required that the Cuban partner be the employer of all Cubans hired by the venture. The foreign partners provided access to international markets, capital, and technology, including foreign technical and management staff.

The new joint ventures were concentrated in mining, manufacturing and construction, which together accounted for more than half of the 134 ventures formed in 1993 and 1994. But there were also 25 new tourism ventures in those years.

MARKET AND CURRENCY REFORMS

The Cuban government realized that, along with foreign investment, some internal economic reform would also be needed. In mid-1993, faced with a deepening economic crisis, the government moved to permit the possession of foreign currency. This diverted significant amounts of hard currency, which had always been in use on the island, out of the traditional black market and into the formal economy. The simultaneous establishment of hard currency retail stores across the island moved much of that money into state coffers. In September 1993, the government began a process of converting large state farms into smaller cooperatives, although the state retained ownership of the land. The legalized dollar also led to much larger flows of family remittances from the US, which quickly became Cuba's third-largest source of foreign currency, after sugar and tourism.

The so-called "rafters crisis" and food riots of August 1994, in which some 40,000 Cubans left the country using all manner of makeshift water craft, put further pressure on the government. It moved to accelerate the reforms. By the end of the year, it had implemented changes that are seen by many as the most significant since the early 1960s. Self-employment was legalized for more than 140 occupations, mostly in the service sector. Farmers markets were legalized with the right to sell products privately, once production quotas had been met. The private sale of crafts and consumer products was legalized.

The exchange of non-convertible pesos for dollars was legalized in 1995 through official exchange agencies operated by the government agency *Entidad Casas de Cambio (CADECA)*. These domestic pesos are not convertible outside of Cuba and it is illegal to export them. The exchange rate floats and the peso fluctuated around 20 to the US dollar during 2000, and stood at 22 to the dollar in early 2001. There were more than 100 *CADECA* money exchanges operating at the beginning of 2001. This move undermined the black market, contributed to a decline in consumer prices, and also helped to absorb excess liquidity in the economy. A parallel convertible peso, which is set at par with the US dollar, continues to be used for official transactions and in economic statistics. In early 1999, the Cuban government announced plans to adopt the Euro as an official unit of exchange for transactions with participating countries.

In August 1996, a new system of taxation on private property and income was approved. But excessive regulation and taxation severely interfered with market incentives, leading to a sharp drop in the number of self-employed. The regulations were revised somewhat following protests from self-employed vendors. The number of largely urban self-employed is officially 160,000, but there are more when unregistered workers are included. In addition, there are some 250,000 peasant farmers who own their land and have been organized in cooperatives since the early days of the revolution.

On the foreign investment front, the Cuban government moved again in 1995 to further liberalize foreign investment. Decree Law 77 legalized investment in real estate, and removed the 49 percent limit on foreign participation in joint ventures. The law formalized practices that had already been put in place for the joint venture with a Canadian company for nickel-cobalt mine and related operations at Moa.

The new law, along with the expectation of further reform, stimulated considerable interest from foreign companies and, by early 2001, the number of economic associations had risen to 392. These enterprises are broadly diversified in some 35 sectors, including agriculture, mining, petroleum, construction and manufacturing. The investors are from 50 countries, with Canada reportedly the second largest investor (after Spain).

In June 1996, Decree Law 165 was approved, which establishes industrial parks and free trade zones. By early 2001 there were 368 "operators" doing business in the zones.

Chronology of Reforms, 1993 to 2000

August 1993	The National Bank of Cuba issues Decree Law 140 and its complementary regulations, establishing the decriminalization of foreign currency possession for Cuban citizens.
September 1993	The State Committee on Labour and Social Security and the State Committee on Finance (both of which have since become ministries) issue Decree Law 141 and Joint Resolution No. 1, creating the legal framework and the regulations for self-employment, and the number of activities legally authorized for engagement in self-employment is raised from 5 to 117. The *Official Gazette* of the Republic publishes Decree Law 142, through which basic units of cooperative production (UBPCS) are established on a part of the land currently occupied by state farms. A total of 3,800 UBPCs are organized between September 1993 and August 1995, on 64% of total state land.
October 1993	Eighteen more categories are added to the list of activities authorized for engagement in self-employment.
April 1994	The Council of State, through Decree Law 147, restructures the central state administration. Fifteen national ministries and institutions are eliminated, and their functions are assumed by other bodies.
May 1994	During a special session, the National Assembly of People's Power approves a group of measures for improving the country's financing. The Executive Committee of the Council of Ministers approves the setting of new prices for products and service rates (cigarettes, alcoholic drinks, fuels, electricity, transportation and postal services).
August 1994	Law No. 73, establishing the Integral Taxation System, is established, with new taxes introduced in stages.
September 1994	Decree Law 191, providing for the opening of farmer's markets on 1 October 1994, is issued. These markets are authorized to sell agricultural products at prices determined by supply and demand.
October 1994	Some new taxes are put into effect. Decree Law No. 192, establishing the industrial and crafts markets, is issued. These markets are authorized to sell industrial goods at market prices.
June 1995	Nineteen more activities are added to the list for authorized self-employment, through Joint Resolution No. 3 issued by the Ministry of Labour and Social Security and the *Ministerio de Finanzas y Precios (MFP)*, Ministry of Finance and Prices. Through Resolution 4 of the Ministry of Labour and Social Security, privately-owned centres for the preparation and sales of food and drink are authorized, limiting the capacities to 12 diners.
July 1995	As of July 1995,140 professions and occupations are authorized for self-employment.
September 1995	Law No. 77, the Foreign Investment Act, is approved, replacing Decree Law No. 50 of 1982. The National Bank of Cuba announces to the population the establishment of a new service for personal savings accounts and time deposits in freely convertible currency, with interest rates determined by the market.
1996	Foreigners were briefly allowed to invest in the real estate sector and own real estate, even if they were not permanent residents of Cuba. This provision has subsequently been frozen, reportedly "temporarily".
1997	New Banking laws are approved. Decree Law 172 establishes the *Banco Central de Cuba* and Decree Law 173 regulates banks and non-banking institutions, including near banks.
1998	Duty drawback provided in Decree Law 162 of 1996 is implemented by passage of Resolution 4 of February 1998.
December 1999	Decree Law 203 on Trademarks and Distinctive Signs, conforms Cuban law to the so-called TRIPS agreement of the World Trade Organization. New regulations extending copyright protection to computer programs were also enacted.

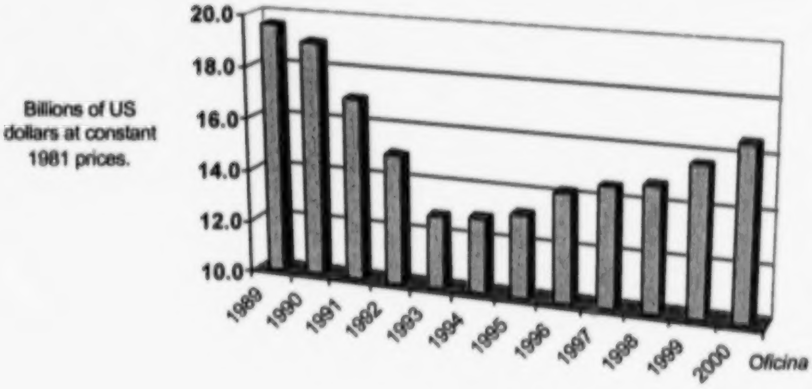
INTERNATIONAL REACTION TO THE REFORMS

The level of interest in Cuba from around the world is illustrated by the attendance at the 18th International Fair in Havana during November 2000. A total of nearly 1,500 foreign firms participated, in addition to some 500 Cuban firms. There were official delegations from 20 countries, and event officials claimed increased participation from manufacturing and technology companies.

Continuing government actions against political dissidents have created concerns about Cuba's human rights record. Most observers do not believe that these events, on their own, will cause permanent damage to Cuba's relationships with its major trading partners. While it has not had a direct trade impact, the imposition of a new security law, which increases penalties for criticism of the government, is regarded as a negative influence on Cuba's economic development.

According to official Cuban government data, the economy grew by 6.2 percent in 1999 and 5.6 percent in 2000. If 5 percent real growth is realized and maintained, the economy will recover to 1989 per capita GDP levels around 2003. Most independent observers believe that Cuba has the resources and other assets needed to bring this about, provided that market incentives are re-established. Producers and consumers are already beginning to respond to incentives and an entrepreneurial culture is gradually emerging.

CUBA'S REAL DOMESTIC PRODUCT



Sources:
Oficina Nacional de Estadisticas
EIU 1989 to 1992

SECTORAL OVERVIEW

Cuba's economy is opening on many fronts and there are opportunities in a range of industrial sectors. The nation is looking for partners with capital, innovative products, access to international markets and technological expertise. This section provides brief summaries of developments in the sectors regarded by Canadian experts in Cuba as offering the best opportunities.

Cuba's Industrial Structure – 2000

Sector	**% GDP**
Agriculture, forestry and fishing	7.6
Mining and quarrying	1.3
Manufacturing	29.0
Utilities	2.8
Construction	4.2
Commerce, restaurants and hotels	21.4
Transportation, communications and storage	6.0
Finance, real estate and business services	4.1
Public and personal services	23.7
Total	100.0

Source: Source:*Oficina Nacional de Estadisticas, Panorama Económico y Social*, January 2001.

TOURISM

Tourism is Cuba's most important industry, and the largest source of foreign currency earnings. Cuban authorities see it as the principal means of reducing the nation's excessive dependence on the sugar industry. Since the industry operates in a competitive international environment, it is also regarded as a key force in the effort to improve productivity throughout the economy.

The country boasts many fine unspoiled beaches and excellent fishing as well as 20 beautiful national parks, located in several areas of the country, most notably Varadero, Jardines del Reina, Holguín and Baracoa. There is a rich history and culture and the Cuban people are hospitable and full of charm.

Prior to the revolution, Cuba attracted some 350,000 visitors per year, roughly 20 percent of current levels. About 85 percent of this traffic came from the US. At that time, tourism was concentrated mostly in Havana, much of it initially attracted during the prohibition period in the United States. After the revolution, tourism foundered. Arrivals from the Soviet bloc never exceeded 30,000 per year. Canadians began visiting Cuba in the early 1970s, but it was at that time mainly a curiosity destination.

Tourism Growth

In 1987, the Cuban government set up a tourism and foreign trade corporation called *Cubanacán*, with a mandate to accelerate the growth of the tourism industry. The company serves as the Cuban partner in numerous joint ventures with foreign corporations. In 1988, it negotiated the first tourism joint venture with a Spanish group, and today it operates more than 50 hotels. Several Canadian companies have agreements with *Cubanacán.* This organization is responsible for tour operator *Havanatur* and *Marina Hemingway* in the Havana area. It is also engaged in the provision of taxi services and car rentals.

Cubanacán is the largest and most internationally active of several Cuban tourism enterprises. The others include *Gran Caribe*, *Horizontes*, *Gaviota*, and *Habaguanex*. Each of them has responsibility for developing specific geographical areas. In addition, *Puertosol* operates marinas, boat rentals and ocean tours. Several of these enterprises have joint ventures with foreign companies.

In 2000, tourist arrivals reached 1,774,000, a rise of 12.5 percent over the year before, and gross revenue from tourism was nearly US $2 billion. The average annual increase in gross revenue during the 1990s was 23 percent, compared with an average increase in visitors of 19 percent. The majority of visitors arrive by air, but in addition, several international cruise lines now call on Cuban ports.

Canada is the largest source of tourists, with 308,000 visitors in 2000. Other important sources of tourists were Germany, Italy, Spain, France and the UK, in that order. Together with Canada these countries supplied 60 percent of arrivals in 2000. Data on tourist arrivals from the US are not published, but Americans are quite visible among visitors arriving in Cuba on flights from Montreal, Toronto, Kingston, Nassau and Mexico City. In 2000 the total number of US citizens (including Cuban-Americans) legally visiting Cuba was estimated at 200,000. While a substantial proportion appear to be business visitors and Cuban-Americans visiting families, a surprising number say they are there only out of curiosity. And some are representatives of American tour companies laying the ground for future US-Cuba tourism. Americans can purchase tourist cards from travel agents in Canada, the Bahamas, Mexico or Jamaica and enter Cuba without having their passports stamped.

Spain was the first country to get involved in Cuba's tourism industry and is still the largest operator of hotels. Canadian companies are active in the industry through hotel supply contracts, and a few large hotel investments are in progress. Other countries investing in Cuban tourism facilities include Austria, Chile, Colombia, France, Germany, Italy, Jamaica, Mexico and the Netherlands.

Spain's *Sol Meliá* hotel chain operates 37 percent of Cuba's hotel rooms, with 17 hotels and more than 6,000 rooms, all of them in the four-star and five-star categories. The company expects to open three new hotels in Cuba during 2001. Considering that many of the hotels operated by Cuban government entities are in the one-star and two-star categories, *Sol Meliá's* importance to the tourism sector is even greater than these numbers indicate.

Development Opportunities

The Ministry of Tourism (MINTUR) is responsible for policy in this sector and serves as an advisor to the tourism industry. The Ministry has designated 8 areas for development of new facilities:

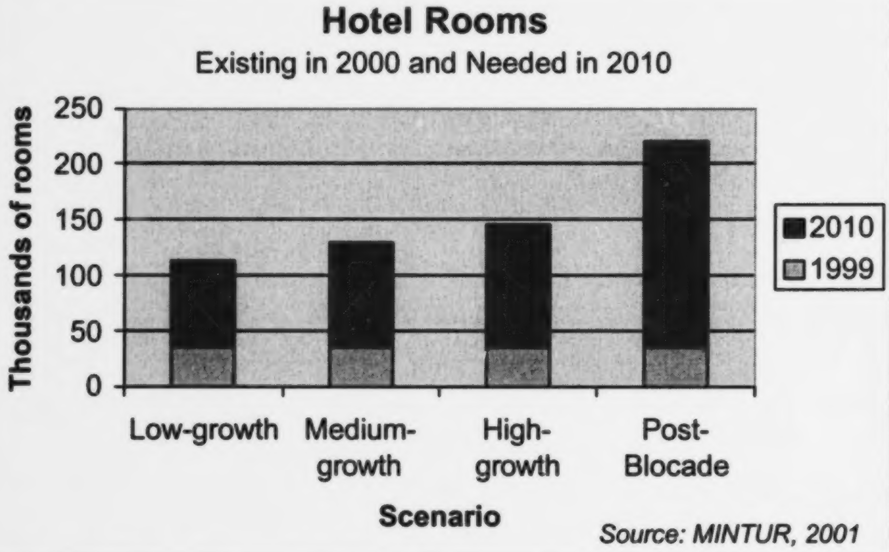
- City of Havana
- Varadero
- Jardines del Rey (includes Cayo Coco, Cayo Paredon Grande)
- North of Camaguey (includes Santa Lucia, etc.)
- North of Holguin (includes Guardalavaca, Estero Ciego, Pesquero)
- South of Oriente (includes Santiago de Cuba, Granma)
- South Central Coast (includes Cienfuegos, Trinidad)
- Archipielago de los Canarreos (includes Cayo Largo and Isla de la Juventud).

Large joint venture deals must be negotiated with both a Cuban tourism enterprise and the Ministry. Twenty-nine joint venture companies with a capital of US$ 1.1 billion were operating in the Cuban tourism sector in early 2001. This included 27 hotel companies with 15,600 rooms, of which 3,700 are in operation, and the rest in the engineering or construction stages. There are 50 hotels under foreign management with 15,300 rooms, and 19 joint ventures engaged mainly in nautical activities.

According to data provided by MINTUR, there were 35,293 hotel rooms in the country in early 2001 that were considered to meet international standards. Of these, 18 percent are five-star quality, while 47 percent are four-star and 23 percent are three-star. Government plans call for the addition of between 4,000 and 5,000 rooms annually over the next few years, but this will not satisfy what Cuban authorities regard as potential demand.

MINTUR estimates a potential shortfall of 59,000 rooms by 2010 under its medium-growth estimates, and 75,000 if the high-growth estimates are realized. These forecasts are based on continuing development of Cuba's tourism facilities, combined with a projected 50 percent increase in Caribbean tourist arrivals between 2000 and 2010. With half of the Caribbean's population and one-third of its population, Cuban officials consider the industry to be "80 percent untapped".

Government estimates of tourist arrivals in Cuba in 2010 include three different growth scenarios, as well as a "post-blockade" scenario. MINTUR estimates 5, 6, or 7 million tourist arrivals for the low, medium and high scenarios respectively. The projection for the post-blockade scenario is 12 million visitors.



Source: MINTUR, 2001

In addition to the large increase in needed hotel rooms, there are opportunities in upgrading existing facilities and services. In general the sector falls short of international standards, and food services, in particular, is an area in need of major improvement. Canadian companies that supply the hotel and tourism sectors may find interesting opportunities.

AGRICULTURE

In spite of its large endowment of arable land and excellent growing conditions, Cuba has experienced difficulty in producing certain kinds of food. More than one-third of Cuba's land mass is rated as highly fertile and considerably more could be made so using the latest agricultural techniques. Sugar, tobacco, citrus and coffee are important export crops. There is a consensus in Cuba about the need to diversify away from sugar monoculture, especially to encourage the cultivation of more fresh fruits and vegetables. Production problems have been exacerbated by a severe shortage of agricultural inputs, especially fertilizers, since 1991. Commodities like eggs, chicken and beef are generally available in the hotels, and the dollar stores that cater to expatriates and private restaurants, but not usually in the private peso markets.

The agricultural sector suffers from several challenges. The use of old and fuel-inefficient Soviet equipment creates serious problems especially since spare parts are no longer readily available. Much agricultural production is highly labour-intensive and animal power is still used. The Cuban government has introduced modest pay incentives for agricultural workers, mostly in the sugar sector, in recognition of the need to motivate the workforce. Tobacco is grown largely by small peasant landowners, who receive some dollar incentives.

Livestock production is hampered by a shortage of feed. No concentrated feed ingredients are produced in Cuba, and the cost of imported feed is prohibitive. Technology for raising livestock is also in need of modernization.

The distribution systems for Cuban-produced agri-food products have been chronically inefficient. Many primary processing techniques remain underdeveloped, and there is insufficient storage, particularly cold storage.

The sector needs technology, marketing know-how and financing, especially in the production of exportable crops. Priority crops include pineapple, mango, papaya (known as *fruta bomba* in much of the island), avocado, lemons, ginger and grapefruit. In response, some foreign companies have formed agricultural joint ventures. Most of the Ministry of Agriculture's joint ventures are in citrus growing and juice production. There are now four in this area, with Chilean, Israeli and French investors. In 1998, 225 hectares of Valencia oranges were brought into production on the Isla de la Juventud, in response to export demand. More recently, Sheritt International completed the construction of a soy bean processing plant in Santiago de Cuba.

The government now allows foreign agricultural joint ventures to sell their produce to the domestic tourism industry. Foreign participation in farms supplying domestic consumer markets is not yet permitted.

The Ministry of Agriculture is responsible for all state-controlled operations in this sector, excluding sugar, which is the responsibility of the Ministry of Sugar. Observers note that the most efficient cooperatives are those operated by the *Asociación Nacional de Agricultura Pequeños* (ANAP), National Association of Small Farmers. Foreign trade in agricultural commodities and inputs is handled by many different agencies specializing in particular products. For example, fertilizers are purchased by *Quimimport*, an agency of the Ministry of Foreign Trade. *Cubazúcar* is the sugar trading house, also housed in the Ministry of Foreign Trade.

Agricultural Cooperatives

Another important development is a move to convert Cuba's large-scale Soviet-style state farms into smaller cooperatives. According to government estimates, almost 3 million hectares of farmland have been transferred to cooperatives. The amount of land under direct state management fell from three-quarters in 1992 to about one-third in 1998.

The conversion process began in September 1993, and about 400 state farms have now been converted into more than 4,000 *unidades básicas de producción cooperativa (UBPCs),* basic production units. The most recently-published official data indicates that in 1998 there were just over three million hectares under management by UBPCs, of which 1.7 million hectares were cultivated. These cooperatives include both sugar cane and mixed farming properties. Workers who are members of these cooperatives receive joint usufruct rights, but not ownership of the land.

On the other hand, peasant-owned land was never entirely abandoned in Cuba. Ownership of some of this land has been pooled in production cooperatives called *cooperativas de producción agricola (CPAs).* Other peasant owners retained individual title to their land but have joined together to obtain access to credit and certain services such as tractors, under *cooperativas de créditos y servicios (CCSs).* These two forms of ownership accounted for about 1.6 million hectares in 1998, more than half of it cultivated. A small amount of peasant-owned land remains outside the *CPA/CCS* system.

The proportion of privately-owned agricultural land has not changed as a result of the restructuring described above, and the Ministries of Agriculture and Sugar retain considerable control over planning by the *UBPCs.* Nonetheless, the reforms have given farmers incentives to increase production. The government expects that these incentives will attract workers to agriculture and ease the traditional labour shortage. Many *CPAs* and *CCSs,* which fall in the ANAP jurisdiction, have received additional land from the state (although in usufruct). Further reforms are expected in this sector in 2001.

As a general rule, cooperatives cannot form joint ventures directly with foreign investors, and must sell their principal output through the Ministry of Agriculture, which pays in pesos. If future government policy allows cooperatives access to hard-currency markets, they will become important consumers of imported agricultural technology and other inputs. In particular, there are urgent needs for fertilizers, animal feed, pesticides, herbicides and breeding stock.

Farmer's Markets

In September 1994, the government legalized private farmer's markets. Cooperatives, private farms, and state farms are now free to sell their produce through private markets once they have met their quota for the state.

More recently, state enterprises not associated with agriculture have established small market gardens on unused industrial and commercial land. Employees or tenants cultivate plots of one or two hectares and the produce is sold for pesos from adjacent stands. This concept was initiated by the Army, but soon spread to a wide range of enterprises throughout the country. Havana is dotted with these gardens, which generally employ relatively intensive cultivation in raised beds, producing good quality "organic" vegetables. Some schools have similar plots used to grow produce for student lunches.

The new markets, combined with the establishment of smaller, more efficient farms, are already having an effect. Production of horticultural crops reached 2.2 million tonnes in 2000, roughly 4 times the 1995 level, according to preliminary official estimates. Over the same period, production of tubers, roots and plantains grew by about 57 percent. Rice, corn and bean production has also risen sharply. Observers believe that once the right incentives are in place, Cuba can eventually produce most of its own food. In spite of these improvements, there will be a market for imported foods for many years to come.

Sugar

The government is now open to joint venture proposals in every part of the agriculture sector, including raw sugar, which had previously been reserved for the state. The sugar industry is relatively highly-mechanized and Cuba manufactures most of its own equipment. Cuba was heavily dependent on sugar before the revolution, producing an average of about 5.4 million tonnes per year between 1955 and 1959. Under the high prices offered by the Soviet Union, production climbed to 9.2 million tonnes for the 1970 *zafra* (sugar harvest), occupying about half of the country's land mass. But production plummeted to 3.3 million tonnes for the 1995 *zafra* before recovering to 4.4

million tonnes the following year. Production in 1998 fell to 3.2 million tonnes, the worst result in more than 50 years. The Ministry of Sugar has taken corrective action and production rose to 3.7 million tonnes in 1999 and 4.1 million tonnes in 2000 according to the *Oficina Nacional de Estadísticas*.

The industry has recently been operating without adequate supplies of inputs, especially fertilizers. Some foreign buyers are providing operating capital in exchange for raw sugar. The government has announced that the elimination of subsidies for the industry will be a major priority. It is reallocating further resources to other agricultural ventures and some sugar operations have been shut down. In 1998, the latest year for which official statistics are available, just under half of the country's cultivated land was devoted to sugar cane.

There have also been calls for a shift towards expanded production of value-added sugar products, since an over-reliance on raw sugar is one of the legacies of the era of Soviet influence. Cuba is already producing more than 50 types of sugar and is an important producer of sugar cane derivatives. But there is considerable room for expansion of refined sugar, molasses, alcohols, pharmaceutical inputs and building products. The use of sugar by-products for fuel, paper and animal feed is also being expanded.

Tobacco

Commercial tobacco cultivation based on native species began in 1723 in Pinar del Rio province, and it is now grown in 14 provinces. Private farms and cooperatives dominate this sector. The unique growing conditions yield cigars of exceptionally fine quality, which are in demand around the world. Cuban cigars are sold primarily through exclusive distributors. Tobacco is Cuba's third largest exported commodity.

In early 2001, the European Commission approved a merger announced in December 2000, between *Tabacalera* of Spain and France's Seita, to create a new company, Altadis, with expected revenues of US$ 4 billion per year. This is part of a deal which gives Altadis a 50 percent interest in Cuba's *Habanos S.A*. The new entity will be the world's largest cigar distributor, claiming a 25 percent global market share of internationally-traded cigars. Industry experts say that the goal is to introduce cheaper Cuban cigars on the world market to be sold through regular retail outlets rather than exclusive tobacco shops. At time of writing, the joint venture between Altadis and *Habanos*, (which was previously 100 percent Cuban-owned), was still in development. *Habanos SA* now has exclusive global marketing rights for Cuban cigars, including such famous brands as *Cohiba*, *Montecristo* and *Partagás*.

Prior to this new arrangement, Spain was already financing almost half of Cuba's total production in return for payment in leaves and hand-rolled cigars. As a result of this exclusive distribution system, as well as excise taxes and other restrictions imposed on tobacco by other countries, the top brands sell for several times their domestic price in foreign markets. This has created problems with piracy of Cuban brand names and the sale of counterfeit cigars. The government has taken a number of corrective steps, including the development of tamper-proof packaging.

Citrus

There have been major efforts in recent years to increase citrus production, and to improve product quality and yields, since this is an important export crop. Cuba is now the world's third-ranked citrus producer behind the US and Israel. This industry was developed mainly after the revolution, with 1959 production totalling only about 60,000 tonnes. Production rose to more than one million tonnes annually by 1990, with three quarters exported to the Soviet bloc. By 1994, production had fallen by half, but the industry is now diversifying with the help of foreign joint-venture partners and is focusing on European markets.

Citrus production stood at 882,300 tonnes in 2000, compared with 794,600 tonnes the previous year. The 1999 crop was made up of 62 percent sweet oranges, 33 percent grapefruit, and 3 percent limes and lemons, by weight. The rest was mostly tangerines. Frozen concentrates are by far the most important products, with some fresh fruit exported to Europe and Canada.

The Israeli BM Group operates Cuba's major citrus operations in partnership with the *Corporación Nacional del Citrico (CNC).* One of them, *Victoria de Giron* accounts for half of Cuba's annual citrus production, and a second one on the Isla de la Juventud, includes the country's largest grapefruit orchards. Another citrus operation, in association with German and Spanish partners, recently went into operation in Santiago de Cuba, and a fifth, with Belgian partners, is planned for Pinar del Rio Province.

Cuba recently began wine production through a joint venture with the Italian company, *Vinos Fantinel*. This enterprise has thirty hectares of land in Havana province and a winery in San Cristobal, built at a cost of US $9 million. Annual capacity is six million bottles. The cheapest variety was selling in the tourist hotels for US $4 per bottle in early 2001. A Canadian company holds 25 percent interest in this venture.

TELECOMMUNICATIONS

Empresa de Telecomunicaciones de Cuba (Etecsa), the state telecommunications company, has partially modernized Cuba's telecommunications network over the past few years, but there is still much room for improvement. Even in Havana, telephone lines are sometimes unavailable during peak periods. In 1993, the American government lifted its ban on long-distance connections to Cuba, creating increased demand for telephone services. In June 1994, the Cuban government sold a 49 percent interest in *Etecsa* to Mexico's *Grupo Domos* at a cost of US $1.5 billion. *Grupo Domos* withdrew after it was sanctioned under the Helms Burton Act. The Italian Telecommunications company, *Stet,* now holds a 29.3 percent stake in *Etecsa*, after reportedly having settled with the utility's former owners in the United States.

The entire system of street telephone lines will be rebuilt and digital systems are gradually replacing the current electro-mechanical switches. WilTel, MCI, LDDS, Sprint and IDB began providing communications with Cuba in November 1994, and AT&T expanded its existing facilities in Cuba at that time. Canada's Teleglobe was already providing voice and data services to Cuba prior to the entry of these firms. Services provided by some of these companies were interrupted in March 1999, when payments due to *Etecsa* by some of the American carriers were seized in a court action in Florida. Direct service resumed in May 2000, but there was a second disruption in December 2000 when *Etecsa* cut the service because of a dispute over fee collections. At time of writing in early 2001, calls to the US were being routed through third countries.

The hard-currency revenue from increased long-distance calls originating in the US and other countries has provided some of the financing for modernization, although under the terms of the licences, American technology may be used only for overseas calls, not for local modernization. Modernization will take time, however, since some of the equipment in use is obsolete. According to official statistics, telephone density in 1989 was 5.2 working lines per 100 people, and the network is believed to have deteriorated to about 3.3 per 100 before the modernization program began. According to government estimates, telephone line density had risen to about 4 per 100 residents by 2000 and the target for 2004 is 9 per 100.

Cuba has an effective cellular telephone system operated by *Cubacel*, a joint venture between *Etecsa* and a number of foreign companies, including one from Canada. The company reportedly has nearly 6,000 subscribers and is planning a major expansion to handle business from foreign business people and tourists. Cellular phones can be rented in the major hotels and the system is popular with business visitors and journalists. This system functions throughout most of the country. *Cubacel* uses North American cellular phone standards. To accommodate European visitors, a new company called C-Com Cuba has recently been authorized to set up a new cellular phone system based on the European GSM standard.

International direct dialling is available to tourist facilities and foreign entities as well as to residences with a separate contract for calls to be paid for in dollars. This can be done only through exchanges with digital switches. Such calls can also be made from cellular phones. This is considered a stopgap measure and direct long distance will eventually be provided to all subscribers. Meanwhile, international long-distance calls from most private Cuban phones are operator assisted. *Etecsa* is in the process of increasing the number of digits in Cuban phone numbers from 9 to 10, including the country and city codes.

Etecsa operates under the auspices of the Ministry of Informatics and Communications. There is a separate company, called *Utisa*, under the same ministry, responsible for technologies such as paging and satellite telephones.

MINING

Although mining has so far contributed a relatively small proportion of Cuba's gross domestic product (GDP), exports of minerals, especially nickel and cobalt, are an important source of foreign currency earnings. And recently, a number of other minerals have begun to attract attention. Cuba has about one-third of the world's nickel resources, and is the fourth largest nickel producer. A Canadian corporation is the most important producer with a major operation in Moa Bay. Production of nickel-cobalt concentrates reached 72,000 tonnes in 2000, up from 66,500 tonnes the year before. Cuba's cobalt production is about 10 percent of the world total and the nation has the world's second largest reserves.

A large proportion of Cuba's nickel is shipped for refining in Fort Saskatchewan, Alberta. These shipments account for more than 70 percent of Canada's imports from Cuba. A foreign-owned company operating through a Canadian subsidiary has begun initial development of another nickel operation in the Pinares de Mayari region. There are two other nickel operations in the Moa area, only one of which is in operation, and both of which are in need of modernization. There have been reports that a Russian mining venture is considering resuming nickel production at the *Camariocas* mine in the Oriente region. Prior to the revolution, Cuban nickel was refined in Louisiana and after 1960, about 70 percent of it went to the former Soviet Union. This is one of the few Cuban industries that have fully recovered from the damage caused by the collapse of the Soviet bloc, largely because of the introduction of Canadian management techniques and technology.

There is some exploration activity being carried out by foreign firms looking for copper, gold, silver, lead, zinc and chrome. In 1998 Cuba exported 326 kilograms of gold and 32,000 tonnes of chrome. The country also has some undeveloped reserves of marble and zeolite. The country has 200 million tonnes of zeolite reserves in 13 deposits and there are currently four refineries in operation with a total annual capacity of about 600,000 tonnes. Quarrying is conducted exclusively by Cuban companies.

Cuba has inadequate resources to fully exploit its mineral endowments. Considerable geological research was carried out in Cuba during the Soviet tenure and mineral assets have been studied, but detailed feasibility data can still be expensive to produce.

The Cuban entity *Geominera* was created in 1993 to form joint ventures with foreign companies for projects primarily engaged in mineral production other than nickel and fuels. By early 1999, *Geominera* had concluded agreements for 42 mining ventures, involving 18 agreements with 6 mining companies. All of these were Canadian junior mining companies or their affiliates engaged in development of gold, copper and silver resources. Low international mineral prices combined with the high cost of operating in Cuba have adversely affected exploration and development activities and all but three or four of these ventures have now gone out of operation.

Exploration and development risk contracts have typically been the first element of involvement by Canadian mining companies. Negotiations for production joint ventures are normally expected to follow if exploration is successful, but only a handful of ventures have advanced to this stage. There are several obstacles to the progression from proven reserves to exploitation. These include Cuban government expectations for royalty payments even before a mine reaches the break-even stage, in addition to taxes that may reach 50 percent of income. Another problem is the high cost of labour, which must be hired through state agencies. Although workers themselves receive very low compensation, the employing entities impose huge mark-ups in addition to a 25 percent labour tax. Industry observers say that including incentives, the total employment cost for a miner can exceed US $1,000 per month.

Discovering and developing mineral resources in Cuba's highly bureaucratic environment takes time, and non-nickel metal deposits are relatively small. This reduces the production horizon available to recover investments and earn a profit, and magnifies the impact of high labour rates and other high operating costs.

ENERGY

Cuba's primary energy sources include oil and gas, hydro-electric power, and biomass. The latter includes firewood, *bagazo* (sugar cane waste), and charcoal. Although the use of firewood has fallen somewhat in recent years, it continues as a significant energy source with 1999 production of 2.2 million cubic metres. The use of sugar cane waste has fallen to less than half of 1990 levels as petroleum and gas resources have been developed. There have been initiatives to build additional small hydro plants in the mountainous areas of the country, and there is potential for solar energy systems.

Some secondary energy is distributed in the form of manufactured gas and alcohol, but the bulk of non-transportation energy consumption is in the form of electricity. Three-quarters of Cuba's electricity comes from thermoelectric plants, and 20 percent comes from industrial co-generation systems. Gas turbine and diesel generators account for 3.5 percent of electricity production, with hydroelectric power making up the balance of 1.3 percent. *Unión Eléctrica*, Electricity Trust, operates the entire electrical generation system. Installed capacity is reportedly in excess of 4,200 megawatts, but the system is operating far below nominal capacity. Gross power generation in 2000 was 14,900 gigawatt hours, up about 3 percent from the year before and nearly equal to peak production of 15 million gigawatt hours in 1990.

Cuba's energy sector has experienced difficulties since the break-up of the former Soviet Union put an end to the sugar-for-oil swaps that had previously supplied subsidized fuel. Under these deals, Cuba imported between 12 and 13 million tonnes of crude oil per year annually. This was more than domestic requirements but some of it was re-exported at market prices to obtain hard currency. The lack of price incentives led to a systematic waste of energy, and Cuba became the largest per capita user of petroleum in Latin America. In the early 1990s, the former Soviet Union converted all oil sales to cash transactions and terminated third-party supply arrangements. By 1992, Soviet supplies had dwindled to two million tonnes per year. In 2000, Cuban petroleum production was reported at 2.7 million tonnes, up by 24 percent from the previous year. By 1999, crude oil imports had fallen to 800,000 tonnes. Imports of refined petroleum products rose steadily in the early 1990s, peaking at about 6 million tonnes in 1997 and then falling off to 5.2 million tonnes in 1999.

Cuba currently consumes about 9 million tonnes of oil annually, of which roughly one-third is domestically-produced heavy crude. Another third is imported under Venezuelan preferences and the remaining third is purchased on the open market. Fuel oil and diesel fuel comprise 84 percent of imports.

Natural gas has emerged as a significant source of energy in the past few years, with production rising by 15 times in three years, from 34 million cubic metres in 1997 to 579 million cubic metres in 2000. A number of electrical generation systems are now being converted to natural gas to take advantage of this production, and a Canadian company has entered into a joint venture for this purpose. Liquid natural gas (LNG), is also now available throughout Havana, distributed by *Cuba Petróleo (Cupet).* Volume is estimated at roughly 600 tonnes per month, and a French-Cuban joint venture called *ELF-Gas Cuba* is extending service to Santiago de Cuba.

Domestic wells operated by *Cupet* sometimes in conjunction with Canadian companies, produce heavy crude characterized by its high sulphur content and viscosity. Cuba's oil-fired electricity plants were designed to burn a purer fuel form of imported oil. The switch to domestic fuel has contributed to inefficiencies as well as deterioration of the physical plant. In addition, there have been difficulties obtaining parts for Soviet and Czech electrical plants. Several generation plants are currently being converting to burn domestic bunker oil, and the cement industry is also burning Cuban oil.

Generally favourable geology and a number of recent discoveries have increased expectations that Cuba may be able to substantially increase its petroleum production. More than 20 risk exploration contracts have been concluded with Canadian and European companies. Cuba has considerable potential since the existing wells are located on a very small portion of the potential producing areas, mostly along the north coast between Havana and Varadero. Canadian companies discovered oil in Cárdenas Bay in 1994 and are conducting continuing drilling operations on other concessions. New oil resources are also being developed in Cuba's Extended Economic Zone off the West Coast.

Energy conservation programs are another key element in Cuba's efforts to meet its energy needs. Much of the Soviet technology in place is not energy efficient, and there is a market for technologies that can improve efficiency. About half of the nation's electrical generation capacity comes from eleven Soviet-built 100-megawatt plants and three 125-megawatt Czechoslovakian-built facilities. All of these plants are undergoing modernization under a US $100 million modernization plan, which will boost production while substantially reducing fuel consumption. In 2000, the government announced that Cuba would dismantle its only nuclear generation plant, the partly completed *Juragua* reactor, which had been mothballed since 1992.

Energy conservation measures at the household level have also been successful. Conservation initiatives have included conversion to high-efficiency light bulbs and an intensive program of evening public service announcements on television, asking consumers to turn off unnecessary lights. The Ministry of Basic Industry has responsibility for both *Unión Eléctrica* and *Cupet*.

INDUSTRIAL MACHINERY

Before the break-up of the Soviet Union, Cuba had developed a broad manufacturing sector, including heavy industry such as paper, steel and cement. It had a capital goods manufacturing sector, with capacity for construction and agricultural equipment including diesel engines. The nation also manufactured a range of consumer goods.

Today the Cuban manufacturing industry is operating at a low rate of capacity utilization, and many factories have been closed. The current problems are largely due to a lack of spare parts and fuel, and some plants could be reactivated with relatively little investment. In some cases, the older Soviet technology in place is inappropriate for supplying Cuba's relatively small market and is also neither fuel-efficient nor environmentally appropriate. New plants incorporating more up-to-date technology will have to be built.

Canadian expertise in "flexible manufacturing" could find application in this environment, especially considering the need to supply both domestic and export markets and to expand as the market grows. There is also an emerging market for retrofitted industrial automation and environmental controls as well as used equipment. The leading industries are textiles and apparel, iron and steel, chemicals, furniture, plastics and ceramics.

A number of high-profile joint ventures have begun manufacturing in Cuba. This includes a consortium of Mexican companies that now operate some 15 textile plants using refurbished Soviet technology. Another example is Unilever, which has a joint venture with the Cuban company, *Suchel,* to produce soap, detergent and other household products. A Canadian company is involved in a joint venture with *Unión Papel* for the production of tissue paper, cartons, and fine paper. Food products are another area of opportunity.

CONSUMER PRODUCTS

Under Cuba's "special period", consumer goods are in short supply. Imported consumer goods are targeted mainly at the tourist industry, although Cubans who have hard-currency earnings also buy in the stores that deal only in US dollars. For example, United Colors of Benetton branded stores operate in tourist areas, but Cubans are visible among their customers. Cubans are large consumers of beer and soft drinks. Preferential pricing is given to domestically-produced beer and soft drinks and sometimes to products imported by major joint venture partners. Beer production involves a high proportion of imported ingredients. Canadian beer and beer produced with Canadian technology has been well accepted and is widely available at tourism sites and in dollar stores.

Havana Club rum is produced by a joint venture with a French firm, which provides inputs and export expertise. There are other rum operations under the *Unión de Licores y Bebidas* which is responsible for all beer, liquor and soft drink production. Refurbishing existing plants is expected to lead to continuing commercial opportunities.

There are also opportunities for both direct importation of consumer goods and domestic production through joint ventures. The tourism industry is already providing a good market for furniture, including mattresses and lighting equipment. Cuban consumers need clothing, footwear and household items, including hardware, and this market is expected to grow. There are also opportunities in apparel manufacturing for both domestic and export sales.

Consumer electronics products including televisions and computers were manufactured in Cuba on a relatively large scale for export to the Soviet bloc, but this market has now collapsed. A number of joint ventures, including a Canadian company, are now engaged in the local assembly of household appliances, television sets, washing machines and electric fans. Geostar also has a joint venture to assemble televisions in Cuba. Government authorities are seeking joint ventures with other consumer-electronics manufacturers.

The growing use of dollars is leading the government retail chains to increase purchases as well as the number of stores. Cuban government corporations including *Cimex*, *Tiendas Universales*, *Caracol* and *TRD Caribe* operate the dollar stores, known as *Tiendas de Recaudación de Divisas (TRD)*. Products in demand include beverages, clothing and goods related to home improvement such as paint and plumbing fixtures. Sales have risen with the growing availability of dollars to a broad cross-section of the population. On the other hand, the government's practice of setting retail prices for dollar transactions at 2.4 times the cost of goods keeps prices out of reach for most consumers.

INFORMATION TECHNOLOGY

Cuba has a fairly advanced information technology (IT) industry with an abundant and qualified labour force. All of Cuba's 47 universities have IT departments, and Cuba's programmers and information technology specialists are probably the best trained in Latin America. Cuban information technology companies can potentially provide subcontracted services for Canadian firms, especially those seeking to develop Latin American markets.

Canadian companies are also using Cuban resources to offset the shortage of skilled IT workers at home. Two Canadian firms have partnered with Cuba's *Cimex* Corporation and Centersoft, to form CubaSoft Solutions Inc. This company facilitates relationships between Canadian and Cuban IT firms and undertakes IT development projects for

Cuban and Canadian firms. Centersoft is also looking for additional foreign partners to commercialize software internationally. *Teledatos*, a division of *Grupo de la Electrónica*, is another important Cuban IT company. Information technology is under the umbrella of the recently created Ministry of Informatics and Telecommunications.

BIOTECHNOLOGY AND HEALTH CARE

Cuba has a system of free health care that is relatively advanced by developing country standards, and also a biotechnology and medical equipment industry that produces unique products developed in Cuba. This includes more than 200 products derived from the sugar industry. Prior to the financial crisis spawned by the break-up of the Soviet Union, Cuba produced more than three-quarters of its own pharmaceutical consumption. But there have been shortages of many medicines, and the government has opted to import some of these products. Cuba is an important producer of interferons and vaccines, and has developed a number of advanced biotechnology processes for medical diagnosis and therapy. The country also produces electronic medical equipment.

Cuba has a significant "health tourism" industry, coordinated by *Servimed*, a subsidiary of *Cubanacán*. This company arranges travel and access to Cuban medical facilities for foreign patients. The bulk of this business comes from customers from countries in Latin America and the Caribbean, who otherwise would have to travel to the United States at higher cost. For example, Cuba has developed certain eye surgery procedures that are claimed to be unique. In 1997, *Servimed* earned US $20 million serving 6,000 patients in 38 facilities.

Cuba has approximately 150 scientific research centres, of which about 100 deal with pharmaceuticals and 20 with medical research. In spite of some notable successes, most of the scientific advances they have achieved have not so far been exploited to their full potential. Canadian companies are working in partnership with Cuban counterparts to provide both inputs for Cuban manufacturing and marketing for exported products.

Most biotech research institutes now have commercialization companies or divisions attached to them. The major research institutes include the Research Centre for Biotechnology and Genetic Engineering, the Finlay Institute, the National Bio-Preparations Centre and the Havana Immunology Centre. There is also a centre for medical electronics called the *Instituto Central de Investigaciones Digitales*, Digital Research Institute

Medical biotechnology is an area of opportunity for joint ventures and licensing. Cuba also has good facilities for research and development of industrial products, plants, and livestock biotechnology. Joint ventures are not allowed in the provision of health care to the Cuban population.

In spite of some successes, companies in this sector have learned that considerable investment and risk is involved in taking Cuban pharmaceutical products to international markets. The principal obstacles to the full commercial development of Cuba's pharmaceutical industry are the stringent testing and registration procedures in the international market. Product quality problems have hampered registration causing large cost overruns in some cases. In addition, some companies have discovered that products claimed to be Cuban inventions were actually covered by patents in other parts of the world. In late 2000, the pharmaceutical sector was brought under the authority of the Ministry of Basic Industry, and observers say that some changes can be expected in the future.

The shortage of hard currency has reduced import expenditures since 1990. This has affected both the availability of medical supplies and the efficacy of the medical system. Nonetheless, health care remains as one of the government's top priorities. Recent large-scale purchases by the Ministry of Public Health seem to indicate that the sector will become revitalized as more hard currency becomes available.

Each of the biotechnology centres operates largely independently, with policy being established at the highest levels of the political leadership. The Ministry of Public Health is responsible for all hospitals, clinics and health services, except for those offered to foreigners in hard currency through *Servimed*, which is a division of *Cubanacán*. This company operates two hard-currency pharmacies that are acceptably stocked. The Ministry of Public Health does all of its purchasing through *Medicuba,* but medicines are also imported by *Laboratorios Eron* and *Servimed.*

ENVIRONMENTAL EQUIPMENT AND SERVICES

The rapid expansion of the tourism sector is creating increasing concerns in Cuba about environmental impacts of the influx of visitors. Indeed, the unspoiled marine resources and mountainous regions are attracting tourists to Cuba partly because the equivalent resources in neighbouring Caribbean countries have been degraded by overuse.

While Cuban officials understand the underlying tradeoffs, the option of reducing the rate of growth of tourism is unattractive, given the large contribution the industry makes to the economy. Moreover, such a move would be particularly unpopular since tourism is the primary source of hard currency earnings, not only for the government but also for the people who work in the industry. The shortcomings of the Soviet-era technology used for pollution abatement are also becoming more obvious, although not necessarily officially acknowledged. This is especially true in the sugar and mining industries, where many environmental control systems are reportedly inoperable.

There is particular concern about damage that increased traffic is causing in coastal areas. New beachfront hotels are being constructed in areas that are prime habitats for a variety of rare species. Other countries in the region have seen serious damage to coral reefs and the depletion of water tables as a result of this kind of development. Concerns have also been expressed about extensive soil erosion caused by deforestation, and about inadequate sewage treatment and potable water facilities in urban areas. There is a need to reduce air pollution from the country's thermal power generation plants, which burn high sulfur content fuel oil.

The government began to take action on the environmental front with the approval of a new environmental law in 1997. The new law recognizes such concepts as sustainable development and biodiversity, which were not explicitly addressed in the 1981 law it replaced. The law requires the publication of an annual environmental assessment. The *Agencia Ambiental Entorno Cubano* published its first annual report in 1998.

In principle, companies that can offer cost-effective solutions that can mitigate environmental damage should find opportunities in Cuba. Unfortunately, Cuban environmental information is generally clouded in secrecy. The annual environmental assessment discusses broad principles, but it is usually difficult for foreigners to learn of specific opportunities. The Ministry of Science, Technology and Environment *(CITMA)* is responsible for administering environmental projects.

CONSTRUCTION

The gradual recovery of the Cuban economy from the devastation of the withdrawal of the Soviet Bloc has driven sustained growth in the construction sector. The real output of the sector rose by 9.7 percent in 2000, with construction contributing 21.5 percent of GDP.

According to data from the *Banco Central de Cuba*, 564 construction projects were completed in 1999, with activity concentrated in education, health, housing, and tourism projects. Nearly 42,000 homes and about 4,000 tourist units were completed. There were also significant investments in new and renovated facilities in mining, petroleum, telecommunications, thermoelectric power generation, and natural gas conversion projects in Havana and Santiago de Cuba.

Construction activity is projected to continue growing throughout 2001 on the strength of several major residential and commercial office facilities being constructed by real estate joint ventures. Spanish construction firms are prominent providers of management services for these projects. But Canadian architects and construction firms are participating in several projects, including the new Miramar Trade Centre, which is being built to Canadian standards. There are also opportunities for providing construction materials, particularly additives and hardeners. The Ministry of Construction *(MICONS)* is responsible for regulating construction activities in Cuba, and still formally uses mobile "micro-brigades" on most major projects.

INFRASTRUCTURE

In spite of the current economic crisis, Cuba has for the most part been able to preserve its extensive industrial infrastructure. This supports companies moving into Cuba. Where financing can be arranged, it also creates business opportunities for modernization projects.

MARINE SHIPPING

All-water container service between Canada and Cuba is offered by a number of shipping companies, including two Canadian firms, Seachart Marine Inc. and Navis Shipping Inc. These companies are listed in the contacts section of this guide.

Two Cuban companies also provide ocean transportation to and from Canada. Coral Container Lines offers departures from Montreal and Halifax, with transit time of eight days. Melfi Marine Corporation provides transportation services between Halifax and Cuba.

Havana's well-protected and defensible harbour made it a major shipping centre under Spanish occupation, and many believe that it will regain this status over time. There are also important ports at Matanzas, Cienfuegos, Mariel, Santiago de Cuba, Nuevitas and Nueva Gerona. There is a supertanker terminal at Matanzas on the north coast with an oil pipeline crossing to the Cienfuegos refinery and port on the south coast. The excellent deep-water port at the Mariel Free Trade Zone is considered a major asset for that development.

Cuba's ports are in reasonably good condition, but in need of some modernization, as well as dredging. This effort is progressing at a fairly rapid pace. New container facilities are being installed, because most imports for the tourism industry arrive in containers.

A Cuban-Spanish Joint Venture called Terminal Container Handling SA. (TCH) provides container-handling services. There is a separate general cargo facility where harbour piloting, stevedoring, fuelling and administrative services are available. Payments for these services must be made before the ship leaves port.

RAIL

There is an extensive rail network running throughout Cuba. The Ministry of Sugar runs its own rail system for the transportation of sugar cane. The Ministry of Transport operates a second line for passengers and general cargo. The public system carried 13.7 million passengers and 4.2 million tonnes of cargo in 1999. There has been a steady drop in passenger traffic, from 2.5 billion passenger-kilometres in 1993 to 1.5 billion in 1999. Cargo traffic increased slightly to 806 million tonne-kilometres over the same period.

There have been initiatives to use the railway as a tourism service, and in early 1999, a Dutch company was offering two-week train tours with numerous stops throughout the island. But most observers believe that such efforts will be limited without considerable modernization of the rail system. Canada has supplied railway parts and engines, as well as consulting services to Cuban railway authorities.

AIR TRANSPORTATION

There are international airports at Havana, Varadero, Cayo Largo, Santiago de Cuba, Camagüey, Holguín, Cienfuegos and Ciego de Avila. There are national airports in Nueva Gerona, Santa Clara, Manzanillo, Nicaro, Moa, Baracoa, Maisí and Guantánamo. The new Terminal 3 at José Martí International Airport in Havana was built with Canadian technology and support, including a C $29 million credit. This modern facility has a capacity of 3 million passengers annually and was officially opened by Prime Minister Jean Chrétien and President Fidel Castro in April, 1998.

The national airline, *Cubana de Aviación (Cubana),* and the Costa Rican airline, *Grupo Taca,* operate direct year-round scheduled flights between Toronto, Montreal and Havana. *Cubana* also has weekly flights between Toronto and Montreal and Varadero with a connecting flight to Havana. These flights handle both passengers and freight. Travellers have reported a number of problems with *Cubana*. In early 2001, the airline was imposing a 20-kilogram per person baggage weight limit, with a US $6.22 per kilogram charge for excess baggage between Havana and Toronto or Montreal. Since these limits are not necessarily enforced upon departure, travellers may be surprised by unexpected demands for US cash for excess baggage on the return leg. *Cubana* does not accept credit cards, and customers wishing to pay that way must deal with travel agents or tour operators. Moreover, the Canadian Department of Foreign Affairs and International Trade (DFAIT) has warned in a recent travel advisory that Canadians should check to see what type of aircraft will be used on their flight. Several older Russian aircraft have crashed, and international safety standards are not necessarily recognized within Cuba. On one flight from Nassau, for example, a *Cubana* jet touched down in Havana with flight crew still standing in the aisle taking advantage of a last chance to garner hard currency through sales of duty free liquor. For current information on travel conditions, see the DFAIT online travel advisory at http://voyage.dfait-maeci.gc.ca/destinations/menu_e.htm.

A number of other companies, including Air Transat, Skyservice, Air Canada and Canada 3000 offer passenger and cargo service on a charter basis and some of these flights are year-round. Flights are from Vancouver, Edmonton/Calgary, Winnipeg, Toronto, Montreal (Mirabel) and Halifax to Varadero, and several other Cuban destinations.

Air cargo service is available from Air Transport GSA Inc., which is based in Mirabel with warehouses in Toronto and Vancouver. Shipments are flown to Varadero and then trucked to Havana.

ROADS

Cuba has about 15,000 kilometres of paved roads. There is a major highway running from Pinar del Río to Santiago de Cuba. There is a highway from Havana to Varadero and new roads linking the cays around Cayo Coco and Cayo Guillermo. By and large the national road system is not well maintained. The only public transportation is a bus system that carried 490 million passengers in 1997, compared with an annual average of about 730 million carried in the 1980s. Urban transportation systems carry more than half this traffic, including nearly 200 million annually in Havana. This system is under tremendous pressure, but has been improved recently with the purchase of used busses from Canada and Holland. Busses are now being assembled in Cuba, using *Busscar* bodies from Brazil and Mercedes engines, and this may relieve the supply situation.

Legal taxis cater almost exclusively to foreigners and operate on a meter system. There is an emerging fleet of informal taxis, both licensed and unlicensed, serving mainly Cuban customers. The use of non-official taxis is considered risky and is not recommended. There are special taxis for tourists, which feature modern cars and charge in US dollars. The more expensive taxis are generally more readily available during peak hours. A trip from the Havana International Airport to the Miramar district where the Canadian Embassy is located costs roughly US $15.00.

CARGO TRAFFIC

Most domestic cargo transportation is by truck. In 1999, 48 million tonnes of freight were carried. Three-quarters of this freight went by truck and 13 percent by rail. More than half the rail traffic consisted of raw sugar and fuel. Coastal shipping accounted for about 8 percent of Cuba's total domestic freight movement in 1999. More than 10 shipping companies handled international traffic in 1999, including 2.3 million tonnes by sea, and 11,200 tonnes by air.

REFRIGERATED STORAGE

Serious shortages of refrigerated storage have been reported in the past, and some foreign companies have been forced to use refrigerated containers, which is an expensive alternative. This problem has been substantially resolved, and additional cold storage facilities are being constructed throughout the country.

TELEPHONE SERVICE

Cuba's telecommunications system is antiquated but is being improved. Digital networks and a cellular phone system have improved service for many customers, but lines are often unavailable even in Havana during peak traffic periods. Also, the cost of international calls remains very high. The purchase of a substantial interest in *Etecsa*, the national phone company, by Italy's *Stet* is expected to lead to further improvements.

International direct dial calls can be made from tourist hotels, from calling centres in urban areas and from cellular phones which visiting Canadians can rent at the airport.

INTERNET ACCESS

Internet access is available to foreign companies operating in Cuba, although the costs are substantial and service is not generally available to Cuban individuals. Service is limited to areas where digital switches are available, but a Canadian company has recently entered into a joint venture agreement to develop a wireless cable solution.

Cuba has five Internet Service Providers (ISPs), all of which are government entities. The most prominent of these providers is *Etecsa*, the national telephone company. Any information about Internet access in developing countries is necessarily volatile, and the following information is based on a hands-on test of *Etecsa's* Infocom service, conducted during February 2001 as well as interviews with Infocom staff. Up-to-date information can be obtained from *Etecsa* at commercial@ip.etecsa.cu.

Infocom offers both dial-up and dedicated leased line service. Users of the dial-up service say that busy signals are not a problem, but that telephone line availability and quality can limit service. Dial up service is offered in four different packages. The most expensive costs US $70 for installation and US $100 per month for 100 hours of connectivity, with additional hours charged at one dollar per hour. The minimum connection is 15 seconds, and users can access their accounts online to obtain precise session-by-session charges.

Because of the unreliability of dial-up lines, most foreign businesses pay additional fees for dedicated connection. A wide range of service levels is available starting with a 19.2 Kbps connection which costs US $350 for installation and $250 per month. A more typical installation for small-to-medium sized Canadian companies is a 64K line costing US $700 for installation and $600 per month. While these costs may seem staggering to some foreign users, they are low compared with higher speed lines. Point-to-point international digital connections with a bandwidth of 2048 Kbps are available at a cost of US $36,000 per month on a one-year contract, plus installation fees. With a 15-year commitment, the cost falls to only US $24,400 per month.

An *Etecsa* official explained that none of these services are available to "natural persons". A corporate application for service must be accompanied by a copy of the firm's registration with the Cuban Chamber of Commerce or a Free Zone operator's license. A network permit from the Ministry of Informatics and Telecommunications is also required. Foreign managers residing in Cuba can access the Internet from home by providing a corporate authorization for specific employees.

There is a black market offering pirated *Etecsa* dial-up access codes, reportedly costing about US $100 per month, but Canadian executives should scrupulously avoid this and other illegal methods of accessing communications systems. Foreign business visitors can gain access in hotel business centres and there is a new Internet Café at the Cuban Chamber of Commerce, where computers were being installed in February 2001. This system works on a pre-paid smart-card system with a base cost of US $12.00 for 5 hours, which facilitates repeat visits.

OFFICE SPACE

Commercial office space is available in several complexes operated by real estate joint ventures. *Cubalse*, a government-owned agency, rents both offices and executive apartments through five joint ventures with foreign firms.

A large business complex called the Miramar Trade Centre is now under construction in the West end of Havana, in the shadow of the Russian Embassy. This enormous complex, which will eventually include 18 buildings, is being constructed by

Inmobiliaria Monte Barreto SA, which is 49 percent owned by the BM Group of Israel and 51 percent by *Cubalse*. The first two buildings were completed in 2000 by a number of construction companies including some from Canada. According to media reports, the buildings feature intelligent offices, and will rent for about US $26 per square metre, excluding services.

ELECTRICITY

Cuba suffered from a serious shortage of electricity as a result of the decline in imports of Soviet crude oil, although the situation has improved substantially as of early 2001. Cuba has modified its thermal electricity generation facilities to burn domestically produced heavy oil, and as a result, the "rotating blackouts" of recent years have ended, for the most part. The major tourist facilities have backup generators in any event.

As of January 1996, all Cuban enterprises operating in hard currency were required to pay electricity bills in US dollars. Private Cubans pay a minimal sum in pesos for their electricity consumption and aggressive advertising campaigns have been launched to promote responsible use.

WATER AND SEWAGE

Cuba has adequate water resources but the water distribution and sewer systems are not in good condition. For the most part, the system consists of American-made treatment plants from the pre-1959 period that have been repaired using Soviet-bloc parts.

During 1997-98, the government launched several hundred small aqueduct projects to improve water service to some 200,000 people. The goal is to provide potable water to every community of 300 residents or more, with assistance from UNICEF. For the most part, these projects use polyethylene pipe manufactured in Cuba. As of early 2001, several projects had been completed and many others were in progress.

Water supplies for tourism facilities and foreign businesses are considered of good quality, but major work is still required to fully upgrade the system.

MONEY AND BANKING

With few exceptions, joint ventures must carry on all their business in US dollars. Cuba issues both convertible and non-convertible pesos. The former are used mainly for official transactions and statistical reports, and are convertible at the rate of one peso to one US dollar. The exchange rate on non-convertible pesos floated around 20 pesos to the US dollar during 2000 and stood at 22 to the dollar in early 2001. Business visitors will rarely if ever need to use pesos, but they may receive convertible pesos in change in dollar stores. US dollars are both accepted and preferred everywhere and are the only currency accepted by some businesses. The government recognizes Euros as the official denomination of transactions with participating European countries.

In 1997, the *Banco Nacional de Cuba (BNC)* was re-organized to separate central bank functions from commercial banking services. The *Banco Central de Cuba* is now responsible for central bank functions. The *BNC* reorganized its commercial functions under a new group called *Grupo Nueva Banca*, which now consists of six different institutions. The *Banco Metropolitano* handles personal banking services for resident foreigners. The *Banco Internacional de Comercio (Bicsa)* is a long-standing institution offering letters of credit, letters of guarantee and other facilities for international trade. It works with approximately forty correspondent banks in countries that do business with Cuba. *Bicsa* will also open foreign currency accounts for foreigners and foreign entities as well as for Cuban nationals. *Banco de Inversiones* is responsible for providing long-term financing for Cuban companies, while *Financiera Nacional (Finsa)* concentrates on the short-term market. The latter is also considered a good source of local credit checks. The other *BNC* subsidiaries are *casas de cambio (CADECA)*, which runs foreign exchange centres, and *Compañia Fiduciaria*.

The expatriate business community has recently expressed reservations about accepting financial instruments, including irrevocable letters of credit, from *Banco Nacional de Cuba (BNC)*. The bank suffers from chronic hard currency liquidity problems, and there are growing concerns about its stability.

In November 1999, a new banking institution, *Banco Exterior de Cuba* was incorporated. This bank provides guarantees under post- and pre-export facilities and may also participate in syndicated loans and facilities.

The big banks serving the Cuban public include the *Banco Popular de Ahorro*, which maintains some 250 offices, and the *Banco de Crédito y Comercio* with more than 200 offices. The *Banco Financiero Internacional*, with 20 offices, handles foreign exchange transactions for Cuban entities. Under Law 15 of 2000, Cuban entities are not allowed to make foreign payments or collections in US dollars, even though contracts are usually denominated in that currency. The Canadian dollar is specifically authorized for foreign collections and payments, as is the Euro. According to Cuban government sources, the Deutsche mark and the British Pound are the most commonly used currencies.

Twelve foreign banks operate representative offices in Cuba under the terms of Decree Law 84 of 1984, but they may not carry on direct banking operations. They include the National Bank of Canada, which can assist Canadian companies by clearing letters of credit. *Société Générale*, a French bank with Canadian offices, also has a representative office in Cuba, through which it represents its Canadian subsidiary.

Under Decree Laws 172 and 173, enacted in 1997, the *Banco Central de Cuba (BCC)* operates the General Register of Banks and Non-Banking Institutions under the authority of the *BCC*. The latter include two near banks with foreign partners. They are not allowed to take deposits within Cuba, but they can offer US dollar loans in the domestic market.

A variety of financial services deliver cash to Cuban nationals, including transfers from their families abroad. These include Quick Cash, which specializes in foreign transfers with no charge to the Cuban recipient. A competing service, Tran$card is operated by *Cimex*, the major Cuban government retail chain. It functions as a debit card at government-owned stores and it can also be used to obtain cash at some *CADECA* foreign exchange outlets.

INSURANCE

The insurance industry is relatively small in Cuba, since the state has traditionally assumed the burden for a wide range of risks. The regulatory environment was modernized in 1997 with the approval of Decree Law 177, which sets out the terms under which insurance companies can be registered and defines allowable activities. It also establishes minimum capital investments and "warranty funds" for various lines of insurance.

The state-owned company, *Seguros Internacionales de Cuba (Esicuba),* was formed in 1963 to carry out general insurance operations linked to international trade. This company offers protection from a wide range of industrial and marine risks, and provides long-term health coverage for foreign executives. Health insurance is also provided by a joint venture called Health of Cuba SA, which was formed in partnership with Health PLC of the United Kingdom.

Automobile insurance is provided by *Empresa de Seguros Nacionales (Esen),* which was split off from *Esicuba* in 1978. This company also provides agriculture insurance, and maintains a national network of agents and adjusters. It has grown rapidly in the last few years as the number of privately-owned agricultural cooperatives and automobiles has increased. *Esen* has recently begun offering disability insurance. Foreign companies should be aware of certain limitations of Cuban automobile insurance, and particular problems related to insurance on rented cars. The details are set out in a Canadian Department of Foreign Affairs and International Trade (DFAIT) advisory posted on the Internet: http://voyage.dfait-maeci.gc.ca/destinations/menu_e.htm/.

The growth of the tourism industry in the early 90s led to the creation of *ASISTUR*, which is a service company that provides local service for visitors covered by foreign insurance companies. In 1996, a company called *La Isla SA* was set up to offer temporary insurance for visitors for health care and other contingencies, as well as insurance for tourist operations. The company markets its policies through an arrangement with *Banco Popular de Ahorro (BPA).*

The insurance industry is supported by a number of service firms, including *Conavana SA*, an appraisal agency, as well as the inspection companies ***Cubacontrol*** and *Intermar.* Agents for Lloyds, Germanicher Lloyd and *Buró Verita* also operate in Cuba.

INVESTING IN CUBA

The Government of Cuba actively encourages certain types of foreign investment, but tightly regulates the conditions under which investors operate. A foreign company wishing to invest in Cuba has two principal options. It can negotiate a partnership with a Cuban government entity, or it can set up commercial or manufacturing operations in one of the country's three free trade zones.

The government has long promoted the formation of joint ventures between Cuban government entities and foreign corporations. But the law also allows fully owned foreign ventures in circumstances that are deemed to be in the national interest. New regulations are reportedly under consideration that would liberalize the regulatory process by expediting the approval of relatively small or otherwise limited investments at a lower level of the bureaucracy.

The first round of foreign investment was directed specifically to tourist hotels and resorts. Subsequently, the government began to promote foreign participation in natural resources, utilities, and non-hotel tourism projects. A third wave of investment now in progress involves foreign companies primarily interested in commercial property development, finance, and manufacturing. A new Foreign Investment Act (Decree Law 77) proclaimed in 1995 opened many new options for foreign investment, including 100 percent foreign-owned ventures. This law also enabled *Zonas Francas*, free trade zones, to provide another way to attract foreign investment.

The application of these regulations has gradually been liberalized since the government began to intensively promote economic associations with foreign investors. By 1999, more than one third of all foreign joint ventures were engaged in manufacturing. In early 2001, there were 368 foreign companies operating in the free trade zones, 24 of them engaged in manufacturing.

JOINT VENTURES

The *Ministerio para la Inversión Extranjera y la Colaboración Económica (MINVEC)*, Ministry of Foreign Investment and Economic Cooperation, actively promotes joint ventures as well as another form of direct foreign investment known as *Asociaciones Económicas con el Capital Extranjero (AECE).* Economic Associations with Foreign Capital. (Foreigners commonly use the term joint venture to refer to both forms while Cuban government statistics treat them all as *AECE*s.) *MINVEC* is looking for firms with innovative products, capital, technology and access to foreign markets to set up operations in Cuba in partnership with government-owned companies.

The number of Economic Associations has risen steadily since significant promotional efforts began following the collapse of the former Soviet Union. Many of the early ventures were subsequently abandoned, with the number of dissolutions peaking at 30 in 1993. Between 1988 and 1999, a total of 497 joint ventures were launched, of which 374 were still operating at the end of 1999.

According to statistics published by the *Centro de Estudios de la Economía Cubana (CEEC)*, direct foreign investment in Cuba between 1991 and 1998 totalled more than US$ 1.3 billion, just over 7 percent of total fixed capital formation over this period.

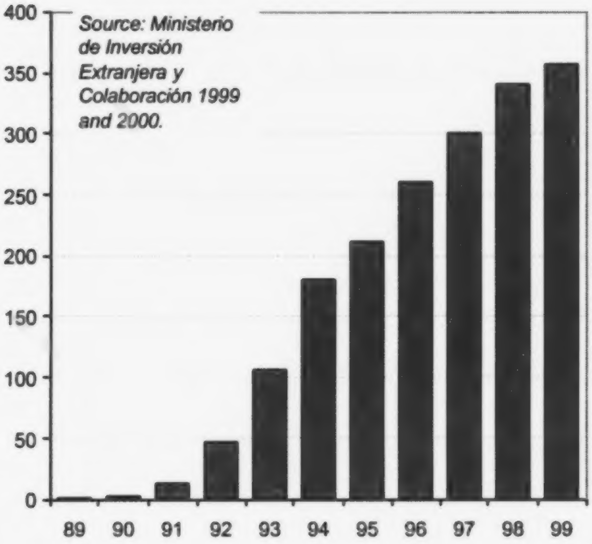
In 1999, 17 new international economic associations were created. Among the most notable was *Habanos SA*, which will commercialize Cuban tobacco, *Aguas de Oeste*, which is a municipal water utility, and Energas, a Canadian partnership that will generate electricity from natural gas associated with oil wells north of Havana. A Panamanian company received a permit for a venture to modernize electricity generation facilities on *Isla de la Juventud*. This project has been widely cited as an example of a venture with 100 percent foreign capital. But it is actually a Build-Own-Operate-Transfer (BOOT) scheme, with the assets reverting to the state after five years. In addition, three new ventures were formed to modernize existing paper production facilities. No joint ventures were dissolved during the year. According to *MINVEC*, there were 392 international economic associations in existence in March 2001.

Economic Associations with Foreign Capital

By Country	Number (end 1999)	By Industry	Number (mid 1999)
Spain	87	Agriculture	24
Canada	72	Minerals	33
Italy	57	Petroleum	19
France	16	Manufacturing	121
Mexico	13	Tourism	71
UK	13	Transportation	12
Venezuela	12	Construction and Industrial materials	26
Germany	7	Communications	5
Israel	5	Real Estate	15
Other Latin America	58	Other Industries	31
Rest of World	34		
Total	374	Total	357

Source: *Estadísticas de Ministerio de Inversión Extranjera y Colaboración*, February 2000.

ECONOMIC ASSOCIATIONS IN CUBA



Source: Ministerio de Inversión Extranjera y Colaboración 1999 and 2000.

THE FOREIGN INVESTMENT ACT

Under Decree Law 77 of 1995, known in English as the Foreign Investment Act, foreign companies can enter into partnerships with Cuban government-owned corporations to produce goods or services in Cuba. These are seen mainly as export vehicles, but access to the local market has become increasingly negotiable. A company with 100 percent foreign capital is possible in principle, although an agreement with a Cuban partner is still required and such ventures have so far been restricted to special situations. There are no restrictions on foreign ownership for companies operating in the free zones, also enabled by Decree Law 77, but these enterprises are more limited than joint ventures in their scope of operation. The law provides for the unrestricted repatriation of profits and there is a guarantee against unreasonable expropriation.

Investment is allowed in virtually every sector of the economy, excluding only health, education and armed forces institutions and even in those cases, commercial enterprises may be approved. In addition to the free trade zones, the Foreign Investment Act provides for three different forms of investment, all of which involve some form of partnership or cooperation with a Cuban government entity:

- joint ventures;
- international economic association contracts; or
- corporations with totally foreign capital.

Regardless of the format, all large foreign investments require an often time consuming process of negotiations followed by high-level political approval. The law requires authorization of all foreign investments by the Executive Committee of the Council of Ministers or a Commission designated by the Committee. There is a specific requirement for the Executive Committee to directly approve investments exceeding US$ 10 million, totally foreign investments, projects involving natural resources, foreign government investments, the transfer of government property and projects involving the military. In spite of the apparent rigidity of these regulations, individual ministries have reportedly been directly approving small or limited-scope foreign investments.

The terms "joint venture" and "international economic association" are used generically to refer to all three types of enterprise specified in the Foreign Investment Act. But technically, a formal joint venture is a freestanding corporation with share capital, which differs from the other two forms. An "international economic association contract" can provide for joint activities without the creation of a legal entity that is separate from the partners. A corporation with "totally foreign capital" operates in partnership with a Cuban government entity, but the foreign company puts up all of the investment.

The law provides a number of guarantees for foreign investors, including protection from unreasonable expropriation. It guarantees the right of joint ventures to operate hard currency bank accounts and to import "whatever is needed for their purposes". The right to repatriate profits is limited only by a requirement that joint ventures retain contingency reserves to meet future obligations. Resolution 59 of 1996 issued by the Ministry of Finance and Prices sets out a procedure for establishing a contingency reserve through contributions of up to 5 percent of annual profits, until a reserve amounting to 20 percent of the total investment has been accumulated. These contributions are charged against profits.

COOPERATIVE PRODUCTION AND ADMINISTRATION CONTRACTS

New forms of investment have gradually come into use through administrative decisions. In March 2001, *MINVEC* formally recognized two new business arrangements, which do not require formal approval by the Executive Committee, since they are more limited in scope than the three formats recognized in the Foreign Investment Act. An official said that there are already about 100 such arrangements in place.

The new investment vehicles are known as "contracts for cooperative production of goods or supply of services" and "contracts for hotel or production administration." These arrangements are essentially joint ventures as that term is understood in Canada, which is to say the parties agree to support a mutual business objective in a structured way, but they maintain separate enterprises. They differ from the international economic associations set out in the Foreign Investment Act in that they are more focused on provision of expertise and technology by the foreign party, and do not involve substantial investments.

At time of writing no formal regulations had been issued, but an official indicated that ministries would be required to report the formation these arrangements to *MINVEC*. A document released by *MINVEC* in March 2001 describes the two arrangements as follows:

Contract for Cooperative Production of Goods or Supply of Services

- One or more national parties partner with one or more foreign parties;
- the parties establish joint cooperation arrangements for production of goods or the provision of services;
- the foreign party provides material or financial resources, technology or markets subject to the contract, and forms of payment are established for those contributions;
- the parties independently carry out and participate in domestic and external commercialization of the products or services, and no distribution of benefits between them is expected; and
- the head of the State Central Administration to which the Cuban partner belongs approves the agreement.

Contract for Hotel or Production Administration

- The foreign party provides know-how, technology or markets based on its industrial or commercial experience in the sector involved;
- a hotel administration contract is approved and its implementation controlled by the Ministry of Tourism; and
- a contract for production administration is approved and its implementation controlled by the Ministry of Foreign Investment and Economic Cooperation.

In all cases, the parties pay taxes and "fiscal contributions" independently. The Cuban partner is responsible for imports.

NEGOTIATING A JOINT VENTURE AGREEMENT

The Foreign Investment Act sets out a framework for negotiations with foreign investors. The main thrust of the law is to establish internal government procedures for obtaining approvals of draft agreements. It gives wide latitude to Cuban negotiators and does not set out specific requirements for the content of partnership agreements.

The Government periodically approves regulations that validate practices that have already been quietly put into place by the bureaucracy. For example, there are reports that the government will move in 2001 to officially authorize Build-Operate-Own-Transfer (BOOT) schemes and "cooperative production agreements" for smaller foreign investments and technology transfers. These agreements would be approved by individual ministries, and merely reported to the Executive Committee of the Council of Ministers.

When asked for an explanation of the motivation behind these changes, an official explained that there are already about 100 such agreements in place, and the Ministry of Foreign Investment and Economic Cooperation would like to establish reporting procedures to keep track of them. The most notable BOOT concession so far has been a venture to modernize electrical generation facilities on the *Isla de la Juventud*. This venture has been widely cited as an example of a corporation with wholly foreign capital, but ownership of the facility will revert to the state at the end of the concession period.

NEGOTIATING STYLE

Negotiations with Cuban government entities are characterized by a deep distrust of capitalist motives. Understandably, the government's objective is to obtain the maximum amount of foreign capital with the minimum amount of foreign influence in the economy and the lowest possible benefit to foreign investors. Cuban negotiating positions are focussed on the "national interest" and essentially anything that contributes to that is negotiable, especially if it provides short-term benefits.

In virtually every case, negotiations are intense and protracted. Decree Law 77 requires approval or rejection by the Executive Committee within 60 days. But the overall process, from conceptual proposal to ministry-level approval to final approval by the Executive Committee can take up to three years. Even under the best of conditions, joint venture agreements are rarely completed in less than 18 months. These delays are one reason why individual ministries have begun approving relatively low-profile agreements themselves. To do so, they apparently use technicalities that might claim, for example, that a BOOT or joint production agreement is not a foreign investment.

Notwithstanding their focus on the national interest, in general, Cuban negotiators take a zero-sum-game approach. They are preoccupied with short run financial gains that can ease the country's immediate shortages of hard currency and technology, as opposed to balanced long-term economic development. This contrasts with the typical Canadian approach, which seeks to establish long-term business relationships, even at the cost of immediate financial gain.

A key characteristic of the Cuban negotiating system is that it does not follow what foreign executives would consider "good faith bargaining". In the manner of a used car salesman who claims that his boss won't approve the deal he has just signed with a customer, Cuban negotiators frequently discover previously undisclosed constraints. The negotiating concept that an item is "off the table" does not apply in a system with multiple layers of authority, each of which can propose amendments or deny approval for deals already made. To make matters worse, it is often difficult to tell who is really in control, since Cuban negotiating teams may include political advisors of highly-placed officials, participating in the guise of technical experts.

Cuban negotiators are exceptionally well prepared. They conduct thorough pre-negotiation research and intelligence gathering. Foreign negotiators report that their Cuban counterparts appear well prepared to handle multiple scenarios on the fly. They also seem to learn from past experience, presumably through a process of post-negotiation analysis.

STAGES OF NEGOTIATION AND APPROVAL

The Bureau of Negotiations of the *Ministerio para la Inversión Extranjera y la Colaboración Económica (MINVEC),* Ministry for Foreign Investment and Economic Cooperation, is responsible for overseeing negotiations between foreign investors and Cuban entities. The regulatory process is extremely bureaucratic and time consuming. Nonetheless, the process is flexible to some extent and companies with offerings that are highly attractive to the government may receive expedited treatment. In general, however, proposals for significant foreign investments proceed in a sequence of reasonably predictable stages, described below. A more formal list of the legal requirements is presented in a sidebar, provided by Berger, Young and Associates, an independent firm of Canadian, Dutch and Cuban lawyers offering investment and transaction advice to foreign investors.

Approaching a Partner

The first task that a prospective Canadian investor faces is locating the most appropriate Cuban partner. This is not too difficult considering that key government departments are organized along industry sector lines. The "lead ministry" is usually obvious, and initial research involves locating the "subsidiary" of that ministry which is most likely to need the Canadian offering and have the clout to push it through the approval process. "Semi-autonomous" corporations with the S.A. designation are often the best choices, because their leaders have been chosen from the Cuban political elite.

Canadian companies can approach executives of prospective partners to informally discuss the Canadian firm's capabilities and the Cuban partner's needs. Officials of the Trade and Economic Section of the Canadian Embassy can help with introductions and appointments.

Initial Proposal

If there are prospects for an agreement, the next stage is to prepare a formal proposal and to negotiate a tentative agreement with the prospective partner. There is no prescribed form for this agreement. In general, Cuban authorities are looking for capital, technology, and access to foreign markets. Key negotiating points from the Cuban perspective are the conditions for technology transfer, specific commitments to sell products abroad, and the form of foreign capital contributions. For the most part, Cuba seeks foreign partners with capital in the form of cash and modern equipment, with the Cuban partner contributing land, buildings, staff and local market access.

Canadian negotiators are generally interested in securing concessions regarding import duties, taxes and labour regulations, and in obtaining some kind of guarantees for payment. Other major issues are intellectual property protection and access to third-party dispute resolution. The proposal must be backed up with detailed financial data, including some form of pre-feasibility analysis.

Agreements for 100 percent foreign participation are possible and a few have been approved, but these still require a relationship with a Cuban partner, and additional annual reporting requirements are imposed. So far, ventures with 100 percent foreign capital have been limited in some respect other than equity. The most common arrangement is 49 or 50 percent foreign participation, although many other configurations are possible.

Ministry Approval

The Cuban subsidiary must submit the draft partnership agreement to the business development group of its ministry, and the Minister's approval is usually required. The Canadian company may or may not be party to this process. Draft agreements are not generally rejected outright at this stage, but it is common for the ministry to propose amendments, some of which may involve fundamental points of the preceeding negotiations. Since the Minister usually has a representative on the negotiating team, this is mainly a negotiating tactic and does not necessarily indicate disapproval of the initial deal.

Bureau of Negotiations

When both the subsidiary and its ministry have approved a draft joint venture agreement, the next step is submission to *MINVEC's* Bureau of Negotiations, which conducts its own analysis. The Bureau may propose amendments, in which case a new round of negotiations may be required. For the second time in the process, deals struck through good faith bargaining may be undermined.

Cuban officials say that the most common reason for agreements to be delayed approval at this stage is the lack of adequate feasibility studies, or a lack of confidence that the foreign partner can deliver on its commitments. A deal that was fundamentally unacceptable would not reach this stage of approval, so the key requirement for the Canadian company is to thoroughly and convincingly present its technological, marketing and financial strengths.

One example of a problematic case cited by *MINVEC* officials is that the foreign firm may propose a level of export sales that is not credible, and not guaranteed. Or it may propose investments that Cuban analysts feel are either not genuine commitments, or beyond the means of the corporation. The officials stressed that Cuba is seeking large and well-capitalized corporations as partners.

Executive Committee of the Council of Ministers

When it is satisfied, the Bureau of Negotiations sends the application to the Executive Committee of the Council of Ministers or a Commission appointed by the Executive Committee for a decision, which by law must be rendered within 60 days. Amendments are not proposed at this stage, although the Committee or Commission might reject a proposed agreement in the expectation that the parties will re-negotiate an approvable deal and submit a new application.

Licensing

Once a joint venture has been approved, the new company must apply for inclusion in the register of foreign companies and the register of importers and exporters maintained by the Chamber of Commerce of the Republic of Cuba. Joint venture licences are valid for 25 years and are renewable.

An English translation of the Foreign Investment Act is available from Business Tips on Cuba, in the publication *Legal Information*. This organization (http://www.cubatips.com) has a Canadian agent, listed in the contacts section of this guide.

Procedures for the Establishment of Joint Venture Companies

Following the selection of an investment project and the conclusion of preliminary agreements with the Cuban counterpart, the procedure for the establishment of a joint venture company involves 5 stages:

1. A feasibility study will be undertaken and a joint venture agreement and the company's articles of association will be negotiated between the foreign partner and its Cuban counterpart.
2. The investment proposal will be presented to the Ministry responsible for the sector where the investment will take place. Usually the Ministry will already be formally involved. Depending on the sector and the nature of the proposed investment, this presentation may or may not involve the participation of the foreign party. The law is silent on this point.
3. The foreign and the Cuban parties jointly present the investment proposal to the Ministry for Foreign Investment and Economic Cooperation, together with a letter of recommendation for the project from the responsible Ministry. The investment proposal should be presented together with a draft of the joint venture agreement, the company's articles of association and an economic feasibility study.
4. Once the Ministry of Foreign Investment and Economic Cooperation has accepted the proposal, it is submitted for comment to all relevant governmental bodies with an interest in the investment.
5. Finally, the Ministry of Foreign Investment and Economic Cooperation will submit the investment proposal, together with a letter of recommendation from the responsible Ministry, the comments or recommendations from the Ministry of Foreign Investment and Economic Cooperation and the comments or recommendations from the other governmental bodies, to the Executive Committee of the Council of Ministers for its approval.

Under Decree Law 77, the decision denying or approving the foreign investment must be rendered within 60 days counted from the date on which the investment proposal is provided to the Ministry of Foreign Investment and Economic Cooperation. The approval of the Executive Committee of the Council of Ministers is given in the form of a resolution, stipulating the terms and conditions applicable to the investment. All entities approved under Decree Law 77 must, within 30 days following the decision of the Executive Committee, be constituted before a Cuban public notary and recorded in the appropriate register established by the Cuban Chamber of Commerce.

Source: Berger, Young and Associates Ltd. (info@bergeryoung.com).

FREE ZONES

Free zones provide a simpler way than joint ventures for Canadian companies to invest in Cuba on a relatively small scale. From the Cuban perspective, these zones, known in Spanish as *Zonas Francas*, provide a way to limit the influence of foreign companies on the Cuban economy without the protracted negotiations that accomplish the same objectives for joint ventures.

The 1995 Foreign Investment Act enabled the free zones in principle and detailed regulations were set out in Decree Law 165, of 1996, concerning Free Zones and

Industrial Parks. English translations of both laws are available in the publication *Legal Information*, from Business Tips on Cuba.

Concessions for duty free operations are issued by the *Ministerio para la Inversión Extranjera y la Colaboración Económica (MINVEC),* Ministry for Foreign Investment and Economic Cooperation. The law recognizes two parties: "grantees" who operate the facilities and "operators" who conduct business in the zones. Recently, some operators have become engaged in providing infrastructure within the zones and officials say they are looking for more companies with these capabilities.

Advantages for Foreign Firms

Operations located in a *Zona Franca* may be 100 percent foreign-owned, a configuration that is allowed, but discouraged, outside of the zones. There is no duty payable and no restrictions on goods imported and exported by companies in the zones. For industrial plants, there is a total exemption from Cuban income and labour taxes for 12 years, to be followed by a 50 percent exemption for another 5 years. Service and commercial operations receive these exemptions for 3 years and 5 years, respectively. Companies in the zone may sell 25 percent of their output in Cuba and more if they have specific approval. They may conduct approved activities outside the zones and are allowed to buy goods and services in the local market.

Three zones are in operation:

1. *Zona Franca Mariel SA*, located about 60 kilometres west of Havana on the northern coast. This facility is 553 hectares in size.
2. *Zona Franca Ciudad Habana (Berroa)*, located 9 kilometres from the port of Havana. This facility is 244 hectares in size, of which 15 hectares are available for development.
3. *Zona Franca Wajay SA*, in the Rancho Boyeros area, near Havana's José Martí airport.

Two Cuban companies *Almacenes Universales SA* and *Zona Franca Habana* offer commercial bonded warehouse services within the free trade zones. The former operates warehouses in the *Wajay* and *Mariel* free trade zones and the latter is located in the *Berroa* free trade zone. Companies licensed to operate in the zones can apply for permits to run their own bonded warehouses.

Development Plans

Plans for the development of these facilities include utilities, security, communications, banking, customs, transportation, restaurants and temporary accommodation. In early 2001, the zones were being re-organized to locate similar operations in the same areas. Each zone has separate areas for bonded and non-bonded facilities, and the development plans call for greater integration with local services.

Companies with experience in the free trade zones report that, in the past, there has been considerable bureaucracy involved, in some cases including multiple government agencies with conflicting requirements. These problems appear to have been resolved by a recent streamlining of the system. An official of the National Free Trade Zone Office said in early 2001 that applications for free zone licences were being approved within 15 days. Moreover, each free trade zone now features an office of the National Office for Foreign Investment *(ONINVEX)*, a new one-stop regulatory service provided by *MINVEC*. This program is described in greater detail in the Regulatory Environment chapter of this handbook.

Scope of Operations

The provisions for unlimited foreign ownership and freedom from duties are intended to attract export-oriented industrial operations. But the fact that such plants cannot ship to the United States is a substantial limitation. As of early 2001, there were only 24 manufacturing operations licensed in the three zones, and none of them were Canadian.

The zones have, however, attracted considerable attention from companies wishing to operate offices and warehouses. Licenses are available for commercial, service or combination commercial/service operators. The attraction for commercial offices is that companies can establish a presence in Cuba without going though the rigorous and time-consuming registration process for foreign representative offices in Cuban national territory.

By early 2001, there were 368 companies operating in the free zones. They include 141 in *Wayjay*, 126 in *Berroa* and 101 in *Mariel*. According to free zone officials, there 58 new operators were licensed in 2000. A fourth free trade zone is reportedly planned for *Cienfuegos*, on the southern coast.

Free Zone Operations
February, 2001

Type of Operation	Number of Operators
Manufacturing	24
Commercial	207
Services	39
Commercial and Services	98
Total	368

Source: National Free Trade Zone Office, 2001.

Prior to the enactment of the free zone law in 1996, there were already about 80 commercial operators doing business out of the *Havana In Bond* and *Almacenes Universales* bonded warehouses in the *Wajay* area. These businesses were given "operator" status in the new zone.

TRADING WITH CUBA

Cuba has fairly normal trading relationships with most countries in the world with the notable exception of the United States, and it conducts trade with more than 100 nations. Cuba has a substantial trade imbalance, with 1999 exports of US$ 1.5 billion and imports of US$ 5.8 billion, according to Cuban government statistics. Trade is limited by the country's reliance on a small number of relatively low-value-added commodities in its export mix, mainly as a result of decades of participation in the Soviet trading system. The trade balance deteriorated rapidly when Cuba no longer had access to "credits" under that regime. Imports nearly tripled during the five years ending in 1999, while exports grew by less than 10 percent, in current dollar terms. Cuba's trade situation deteriorated further in 2000, as high oil prices and falling sugar prices squeezed its hard currency liquidity.

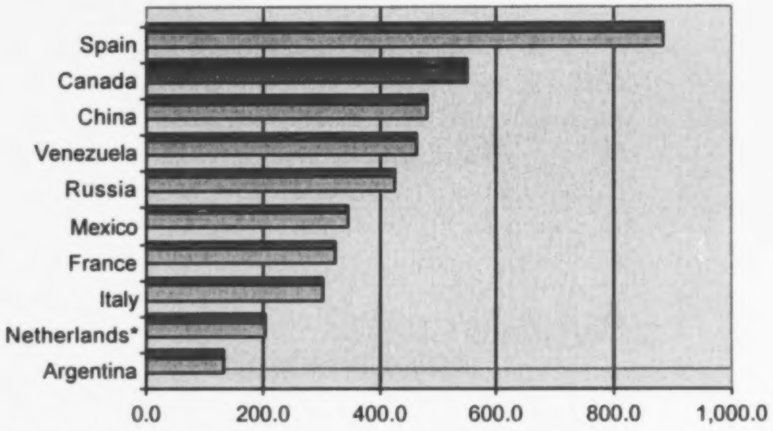
CUBA'S TRADE WITH THE WORLD

The structure of Cuban's trade relationships with the world changed abruptly in 2000, when Venezuela moved up from fourth place to rank as Cuba's largest trading partner. This was the result of a trade deal that will send 53,000 barrels of Venezuelan petroleum and derivatives to Cuba per day at preferential prices. Reciprocal trade will offset some of the increase in Cuban imports. Although statistics were not available at time of writing, a statement by Cuba's Minister of External Trade reported in the international press in February 2001 stated that the country's main commercial partners are now Venezuela, Spain, Canada, the Netherlands, China and Russia in that order. In previous years, Canada was Cuba's second largest trading partner after Spain. Other important partners include Mexico, France, Italy, the UK and the Ukraine. Cuba's top ten trading partners shown in an accompanying chart, accounted for 70 percent of two-way trade in 1999.

Cuba's exports are highly concentrated in a few crude and semi-manufactured commodities. Sugar and sugar cane extracts accounted for 32 percent of 1999 exports, followed by minerals with 27 percent. Tobacco, fish and agricultural produce made up another 24 percent.

Cuban government statistics classify 1999 imports as 24 percent consumer goods, 63 percent intermediate goods and 13 percent capital goods. This is misleading, however, since a considerable portion of machinery and equipment imports are classified as intermediate goods.

CUBA'S TOP TEN TRADING PARTNERS
Two-Way Trade - 1999



** Includes Dutch Antilles*

US$ millions

Source: Oficina Nacional de Estadisticas, 2000

CANADA-CUBA TRADE

In contrast with Cuba's overall trade situation, where imports exceed exports by a factor of nearly four, trade with Canada is close to balanced, thanks mostly to Canada's dominant role in the Cuban nickel industry. Canadian exports to Cuba fell by 17 percent in 2000 to C$ 328.2 million, while imports from Cuba rose by 34 percent to reach C$ 408.5 million. In 1999, Canada had a C$ 90 million trade surplus with Cuba.

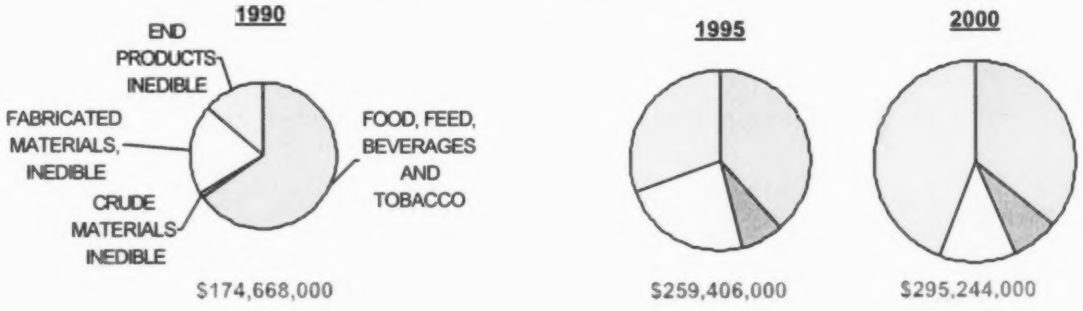
Nickel imported from Canadian-Cuban joint ventures in Cuba for processing at Fort Saskatchewan, Alberta accounts for about 80 percent of Cuban sales to Canada. In 1999, Canada imported only eight other products in volumes of C$ 1 million or more. The most important of these are sugar cane and extracts, cigars and tobacco, lobster, and shrimps. Other products in the million-plus category included unwrought gold, iron and steel bars and binder twine. Together with nickel, these products account for about 98 percent of Canadian imports from Cuba.

Canadian exports to Cuba are much more diversified. Canada's top 25 products (at the HS 6-digit level) exported to Cuba represent 57 percent of the country's total shipments to Cuba by value. The export picture is quite dynamic, since overall trade is small relative to sales of some individual products. There are abrupt shifts from year to year, since a single contract could represent an entire product category. For example, Canada sold no dried beans to Cuba prior to 1998, but sold C$ 21.6 million worth in 1999. Similarly, corn sales fluctuated from C$ 21.3 million in 1995 to $45,000 in 1997 and then rebounded to $7.8 million in 1999. Meanwhile, wheat flour fell from C$ 5.6 million in 1990 to $73,000 in 2000.

Aside from fluctuations in sales of specific products, the structure of Canada's export mix has changed dramatically over the past decade. Prior to the break up of the Soviet Union, Canada's exports to Cuba were mostly commodities, with food and feed accounting for nearly two-thirds of 1990 exports and crude and fabricated materials adding another 20 percent. As the trade relationship has matured, agricultural and material sales have remained relatively stable, while end product sales have surged, rising from 13 percent of exports in 1990 to 43 percent in 2000. Products like machinery, motor vehicles and parts, communication equipment, tools, household goods and computer peripherals have all grown steadily. (These statistics are based on the Standard Commodity Classification, which was all that was available for 2000 at time of writing, and they are not easily compared with the accompanying top 25 product lists, which are based on the Harmonized System).

The Evolving Structure of Canada's Export Mix

Total Exports to Cuba in Canadian dollars



Source: Based on Statistics Canada CANSIM data.

Canadian Exports to Cuba

1990 – 2000 Thousands of Canadian dollars
Based on Standard Commodity Classification categories

Description	1990	1995	1999	2000
Live Animals	2,747	18	0	41
Total Food, Feed, Beverages and Tobacco	111,976	98,103	171,274	101,923
Meat and Meat Preparations	19	14,403	36,596	35,060
Wheat	91,993	15,025	16,916	24,212
Wheat Flour	5,604	1,083	382	73
Other Cereals and Preparations	4,506	21,025	10,658	10,837
Vegetables and Vegetable Preparations	7,458	16,247	86,380	15,075
Fodder and Feed	812	198	108	155
Dairy Produce Eggs and Honey	13	17,848	15,194	11,457
Other Food, Feed and Beverages	1,571	12,274	5,040	5,054
Total Crude Materials Inedible	2,561	18,899	18,102	22,418
Sulphur	1,969	9,557	14,904	18,606
Other Crude Materials	592	9,342	3,198	3,812
Total Fabricated Materials, Inedible	33,715	59,612	33,737	35,230
Lumber	1	1,702	537	214
Newsprint Paper	0	6,405	282	1,855
Other Paper and Board	3,354	779	2,772	5,054
Textile Fabricated Materials	1,021	257	705	889
Chemicals	715	588	825	878
Fertilizers and Fertilizer Material	0	21,346	8,638	4,377
Synthetic Rubber and Plastics	511	1,917	4,417	3,072
Steel Plate, Sheet and Strip	523	1,828	984	1,618
Other Iron and Steel	47	2,110	1,739	1,314
Metal Fabricated Basic Products	3,757	5,054	5,486	5,087
Non-Metal Mineral Basic Products	389	389	1,173	2,419
Other Fabricated Materials	23,397	17,237	6,179	8,453
Total End Products Inedible	23,342	77,849	116,427	125,950
Total Machinery	1,285	18,447	19,852	29,915
Motor Vehicles and Parts	2,705	11,006	20,778	18,665
Communication and Related Equipment	4,259	3,345	9,433	8,857
Other Transportation and Communication	2,623	5,713	14,600	8,738
Electrical Lighting and Distribution Equipment	4,366	3,448	4,907	3,836
Hand Tools and Miscellaneous Cutlery	44	274	543	1,514
Office Machines and Equipment	187	5,535	11,008	14,158
Other Equipment and Tools	3,223	11,287	16,088	15,214
Personal and Household Goods	1,191	5,666	5,665	9,430
Medicinal and Pharmaceutical Products	347	94	596	249
Medical, Ophthalmic, ortho. Supplies	305	289	1,328	983
Containers and Closures	281	4,052	3,334	6,240
Prefabricated Buildings and Structures	1,643	2,979	4,162	3,138
Other End Products	883	5,714	4,133	5,013
Special Transactions	326	4,927	13,356	9,684
Total Domestic Exports	174,668	259,406	352,897	295,244
Re-Exports	2,331	19,972	43,083	32,925
Total Exports	176,999	279,378	395,980	328,169

Source: Statistics Canada CANSIM Database

Top 25 Products Exported to Cuba

Thousands of Canadian Dollars – 1995 to 1999

Product (HS 6-digit level)	1995	1996	1997	1998	1999
Peas - Dried and Shelled	10,414	29,796	36,525	46,783	56,801
Beans - Dried and Shelled	--	--	--	114	21,630
Meslin and Wheat	13,342	11,806	12,190	12,947	16,017
Sulfur Of All Kinds	--	7,471	15,601	14,700	14,902
Cuts and Edible Offals Of Fowls Of 'Gallus Domesticus' - Frozen	--	14,925	16,098	29,133	14,700
Other Motor Vehicle Parts	3,406	3,307	6,832	12,535	10,927
Parts and Accessories Of Automatic Data Processing Machines (Incl Computers) and Units Thereof	1,907	6,654	6,726	8,536	10,235
Potassium Chloride	21,345	13,914	8,165	3,210	8,638
Milk/Cream Powder (<1.6% Fat)	16,316	6,953	8,889	8,226	8,121
Corn (Excluding Sweet Corn)	19,258	16,168	45	39	7,816
Motor Vehicles - Spark Ignition - Cylinder Capacity 1500-3000 CC	3,244	754	10,707	7,901	6,617
Swine, Cuts Boneless - Frozen	289	1,781	1,119	4,084	6,344
Worn Clothing and Other Worn Textile Articles	1,133	2,609	2,875	3,641	3,767
Bovine, Cuts Boneless - Frozen	411	710	1,783	2,292	3,672
Rail Locomotives - Powered By Diesel Engine	--	320	--	--	3,580
Parts Of Boring or Sinking Machinery	1,218	803	4,097	5,602	3,434
Structures and Parts Of Structures Iron or Steel	4,508	6,374	11,946	5,134	3,430
Input or Output Units For Computers and Other Data Processing Machines	--	2,403	1,740	2,705	3,345
Trucks - Compression Ignition - Load 5-20 Tonnes	1,621	879	1,026	376	3,185
Sausages and Similar Products Of Meat, Meat Offal or Blood	1,620	2,382	3,356	6,840	3,165
Parts Of Rail Vehicles and Locomotives	1,823	803	1,098	1,627	3,112
Butter	--	825	1,379	3,484	3,090
Electrical Machines and Apparatus	--	1,052	2,294	1,097	2,970
Storage Units For Computers and Other Data Processing Machines	-	1,511	1,352	2,598	2,817
Sanitary Food or Beverage Containers (Cartons/Boxes/Cases) - Corrugated Paper or Paperboard	3,155	1,502	3,411	3,041	2,809
Sub-Total	105,011	135,698	159,252	186,647	225,127
Others	174,154	156,292	204,802	295,555	170,854
Total (All Products)	279,165	291,991	364,054	482,201	395,980

Source: Statistics Canada data from Industry Canada Trade Data Online: http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html.

Top 25 Products Imported from Cuba

Thousands of Canadian Dollars – 1995 to 1999

Product (HS 6-digit level)	**1995**	**1996**	**1997**	**1998**	**1999**
Metals or Metallic Compounds	--	--	<1	36,475	242,456
Cane Sugar - Raw	53,949	53,734	42,615	40,475	27,337
Cigars, Cheroots and Cigarillos	2,530	3,153	7,406	8,328	7,538
Rock Lobster and Crawfish - Frozen	8,204	5,910	6,926	8,481	6,548
Gold In Unwrought Form	--	--	--	8,504	5,445
Iron and Steel Bars and Rods- Hot-Rolled/Drawn/Extruded - Indented ribbed or deformed	141	--	1,204	1,006	3,534
Cane Molasses	3,521	5,381	4,494	3,992	2,506
Shrimps and Prawns	5,657	4,726	7,447	4,391	1,795
Binder or Baler Twine	109	308	551	1,258	1,634
Aluminium Waste and Scrap	--	425	1,251	1,797	992
Copper Waste and Scrap	255	139	866	362	933
Mens/Boys Trousers, Overalls and Shorts – Woven - Cotton	--	20	33	89	810
Rum and Tafia	188	191	77	372	523
Rock Lobster and Crawfish - Not Frozen	--	6	2,294	1,274	395
Coffee - Not Roasted	266	369	221	442	365
Bars and Rods - Iron/Non-Alloy Steel - Hot-Rolled/Drawn/Extruded - Other Shapes	--	--	--	1,220	350
Womens/Girls Trousers, Overalls and Shorts - Woven - Cotton	--	--	--	8	235
Shrimps and Prawns - Not Frozen	--	--	--	2	225
Collections, Collector's Pieces of Various Scientific Disciplines	245	164	154	13	177
Tobacco (Unmanufactured) Stripped	100	180	123	35	154
Coffee - Roasted	13	27	--	18	124
Natural Sponges of Animal origin	36	11	--	14	120
Worked Monumental or Building Stone, Simply Cut or Sawn	--	--	--	--	115
Other Salmonidae - Fresh or Chilled	--	--	122	245	108
Guavas, Mangoes and Mangosteens - Fresh or Dried	--	4	29	38	97
Sub-Total	75,213	74,748	75,814	118,838	304,516
Others	245,701	326,417	277,313	214,630	1,264
Total (All Products)	320,914	401,165	353,127	333,467	305,780

Source: Statistics Canada data from Industry Canada Trade Data Online: ***http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html.***

CUBAN CUSTOMERS

Imports into Cuba are closely controlled, as part of the government's efforts to manage hard currency reserves. Only approved entities can import and most of them are restricted to particular product groups. Traditionally, government ministries were the principal buyers. Before the economic liberalization, there were only about 50 national enterprises that were authorized to import. But a 1992 constitutional amendment ended the government import monopoly, and recent reforms have helped to diversify the market. The *Ministerio del Comercio Exterior (MINCEX)*, Ministry of Foreign Trade, has now issued import permits to more than 300 state-owned, but decentralized, enterprises. Many of them operate joint ventures with foreign corporations.

Ministries and Institutes

Cuban government ministries are assigned responsibilities on a sectoral basis and they oversee all production of goods and services. The large ones include agriculture, sugar, tourism, basic industry, steel and light industry but there are many more. Each Ministry has a business development group, each of which supervises the operation of a series of government-owned "subsidiaries", which are the end users of most imports. The procurement process can be complex, since hard currency spending is often under the control of the supervising ministry and the Council of Ministers, rather than the purchasing entity.

The procurement process lacks transparency, even by third-world standards. Potential corruption is controlled by close observation of both Cuban and foreign negotiators and by members of the security apparatus, rather than by exposing the overall procurement process to public scrutiny, as is the case in Canada. The process is shrouded in secrecy and there are no formal competitive bids. Moreover, the details of contract awards are not released.

In some industries, government-owned production companies are grouped into conglomerates known as *uniones* that coordinate production throughout the sector. They include *Unión del Papel* (paper), *Unión del Plástico* (plastics), *Unión Molinera Confitera* (agri-food) and *Unión Súchel* (soap and detergent). There are also inter-ministry boards set up to supervise purchases of certain widely-used commodities, such as meat, chicken and some types of clothing.

Semi-Autonomous Government-owned Corporations

In recent years the government has moved to give some autonomy to a variety of state enterprises. These entities are incorporated, and have the *Sociedad Anónima (S.A.)* designation. Some of them are registered in other countries. These companies generally control their own hard-currency revenues and can make purchases on their own account. *S.A.* companies must remit a monthly "dividend" to the government. The amount is negotiated between the government and the company directors but frequently not disclosed to foreign partners.

These companies are the most likely prospects for sale of goods for their own account or for resale. The majority of these entities import for their own use, but there are a growing number engaged in wholesale and retail distribution. Examples include *Cubametales*, *Alimport*, *Quimimport*, *Medicuba, Transimport* and *Maprinter.* Other government-controlled enterprises are engaged in retail distribution, including *Cubanacán (Tienda Universo)*, *Cubalse (Tineda Meridiana)*, *Cimex (Tienda Panamericana), TRD Caribe*, *Caracol* and *Gaviota (Tienda Gaviota).*

Ministries of the Government of Cuba

Ministerio del Azúcar	MINAZ	Ministry of Sugar
Ministerio de la Agricultura	MINAGRI	Ministry of Agriculture
Ministerio de Ciencia, Tecnología y Medio Ambiente	CITMA	Ministry of Science, Technology and Environment
Ministerio del Comercio Exterior	MINCEX	Ministry of Foreign Trade
Ministerio del Comercio Interior	MINCIN	Ministry of Internal Trade
Ministerio de la Informática y de las Comunicaciones	MIC	Ministry of Informatics and Communications
Ministerio de la Construcción	MICONS	Ministry of Construction
Ministerio de Cultura	MINCULT	Ministry of Culture
Ministerio de Economía y Planificación	MEP	Ministry of Economy and Planning
Ministerio de Educación	MINED	Ministry of Education
Ministerio de Educación Superior	MES	Ministry of Higher Education
Ministerio de Finanzas y Precios	MFP	Ministry Finance and Prices
Ministerio de la Industria Alimenticia	MINAL	Ministry of Food Industry
Ministerio de la Industria Básica	MINBAS	Ministry of Basic Industry
Ministerio de la Industria Ligera	MINIL	Ministry of Light Industry
Ministerio de la Industria Pesquera	MIP	Ministry of Fishing Industry
Ministerio de la Industria Sidéreomecánica	SIME	Ministry of Steel and Mechanical Industry
Ministerio de Relaciones Exteriores	MINREX	Ministry of Foreign Affairs
Ministerio del Transporte	MITRANS	Ministry of Transportation
Ministerio de Turismo	MINTUR	Ministry of Tourism
Ministerio para la Inversión Extranjera y la Colaboración Económica	MINVEC	Ministry of Foreign Investment and Economic Cooperation
Ministerio de Salud Pública	MINSAP	Ministry of Public Health
Instituto de Aeronáutica Civil de Cuba	IACC	Cuban Institute of Civil Aeronautics
Instituto Nacional de Recursos Hidráulicos	INRH	National Institute for Water Resources
Instituto Nacional de Deportes, Educación Física y Recreación	INDER	National Sport, Physical Education and Recreation Institute
Instituto Cubano de Radio y Televisión	ICRT	Cuban Institute of Radio and Television
Banco Central de Cuba	BCC	Central Bank of Cuba

Source: *Centro para la Promoción de las Exportaciones de Cuba.*

Joint Ventures

Under Cuba's foreign investment law, most foreign involvement in the economy occurs through "joint ventures" and "economic associations" between foreign investors and Cuban government entities. These entities obtain import permits for a specific range of goods and services needed to operate, and they are potential customers for a wide range of products. But they cannot import for resale. Companies with Canadian partners can be approached in Canada, especially if the supplier has a previous record with any of those companies. Joint ventures with European and Japanese partners may also be in the market for products that can be delivered more quickly or more economically from Canada than from their home countries.

Directory of Importers

Entities authorized to import are listed in a directory published by the *Cámara de Comercio de la República de Cuba*, Chamber of Commerce of the Republic of Cuba. The directory provides contact names, addresses and phone numbers as well as a list of products handled by each importer.

EXPORTING FROM CUBA

Exporting from Cuba requires the vendor to obtain the necessary permits, including export permits, sanitary and phytosanitary certificates and other product quality certifications. Since all production in Cuban national territory is undertaken by government-owned entities and joint ventures that include government entities, this is not generally an issue for the Canadian buyer.

Importing goods into Canada from Cuba follows standard customs practices. The only complexity is the inability to trans-ship goods through the United States. Goods of Cuban origin also may not be re-sold in the United States. Goods can be shipped from Cuba to Canada directly by ocean or airfreight, and Canadian authorities accept Cuban sanitary and phytosanitary certificates. Cuban exports benefit from preferences granted by countries participating in the General System of Commercial Preferences.

The *Centro para la Promoción de Exportaciones Cubanas (CEPEC)*, Cuban Centre for Export Promotion, is responsible for disseminating "Cuba's Export Offer" through trade missions around the world. It publishes a Directory of Exporters, which is classified by Harmonized System (HS) codes.

IMPORT REGULATIONS

The Tariff System of the Republic is defined in Decree Law 124 of 1990. Decree Law 162 of 1996 sets out the functions and operation of the customs system. A full English translation of this law can be found in the Number 6 issue, 1996, of the Cuba Foreign

Trade magazine. Decree Law 124 and its regulations define requirements for import permits, establish import tariffs, and set out procedures for customs clearance.

Import Permits

Goods can be imported into Cuba only by government entities and joint ventures holding permits for the specific goods in question. Agents and intermediaries can handle goods on consignment for licensed importers, but they cannot import on their own account and they cannot conduct distribution operations. Joint ventures with foreign participation will generally obtain their import permits through their Cuban partners, but the right to import specific categories of product may be included in negotiations when seeking approval of the joint venture agreement.

Import Duties

Following reductions in 1997, the simple average tariff on about 5,000 commodities was reduced from 11.9 percent to 10.7 percent for most favoured nation (MFN) countries, according to the *Ministerio del Comercio Exterior (MINCEX)*, Ministry of Foreign Trade. The maximum MFN tariff is 30 percent. Cuba applies the MFN rate to goods originating in Canada and other countries with which it has bilateral agreements. Cuba is also a member of the Latin American Integration Association (ALADI). Import tariff classifications are based on the Harmonized System (HS) at the 8-digit level.

Entities with foreign partners may be granted duty free status for some or all of those products as part of their economic association or joint venture agreement. This matter is negotiable along with other terms of these agreements. Cuban exports benefit from preferences granted by countries participating in the General System of Commercial Preferences

Regulation 4/98 provides for duty drawback in a number of circumstances including temporary importation for upgrading or re-export and replacement of materials incorporated in exported products as well as chemicals that disappear during the production process and are not incorporated in the final product. These drawbacks are granted only when the circumstances are deemed to be in the national interest or for commercial viability in foreign markets.

Customs Procedures

An approved Cuban customs broker must handle all customs formalities. Some larger importers arrange to have staff trained and certified and pay a fee of US$ 50 monthly to operate internal agencies. The 20 agencies that were approved to provide brokerage services on a commercial basis as of mid-2000 are listed in an accompanying table.

Precise documentation and full compliance with all regulations is essential when exporting products to Cuba. Seemingly minor discrepancies can lead to confiscation of improperly imported goods. Although compliance with these regulations is technically the responsibility of the importer or the agent handling consignment shipments, careful documentation on the part of the shipper will reduce errors and delays. Moreover, since labelling, sanitary, phytosanitary and product safety standards regulations are enforced at the border, as a practical matter, the burden of compliance rests with the Canadian exporter. (These regulations are discussed in detail in the Regulatory Environment chapter of this guide.)

Some Canadian logistics companies have cooperative agreements with Cuban customs brokers. This means that the documents can be prepared in Canada and then validated by the Cuban broker.

The Department of Foreign Affairs and International Trade (DFAIT) in Ottawa provides information on access to foreign markets including tariffs, taxes and certain customs procedures. Contact the Tariff and Market Access Division at (613) 944-5070 or (613) 944-1569. The fax number is (613) 992-6002, and the email address is eat@dfait-maeci.gc.ca. Tariff information is also available in English at the Cuban government customs website: http://www.aduana.islagrande.cu.

Approved Cuban Customs Brokers	
Adesa	Tecnotex
Cubapack	Transcargo
Almacenes Universales SA	Transitarios Coral
Atm Mitrans	Utisa SA
Conas SA	Astrad
Cubacontrol SA	Empresa Consignataria Mambisa Marítima Caribeña
Cubalse	Naviera Cubana Caribeña
Cubanacan SA	Aerovaradero
Intermar SA	Servitally
Palacio De Las Convenciones	OTM Central Cargo
Source: Government of Cuba, July 2000	

Imports Under Consignment

Cuban regulations make it difficult for foreign companies to set up representative offices in the country to receive imported goods for resale. Foreign companies are expected to establish a substantial trade relationship with Cuba for at least three years, before being allowed to establish a presence in Cuban national territory. For this reason, consignment sales have been growing in popularity. Goods can be shipped to Cuba under consignment provided that they are covered by a "contract for sales of merchandise imported on consignment". The terms of consignment contracts are specified in the regulations set out in Resolution 507 of 1995, administered by *MINCEX*.

Consignment contracts must stipulate that the consignor holds title to the goods, which the consignee must sell on behalf of the consignor according to terms set out in the contract. The consignee must pay for the goods at the time they are sold. Any Cuban entity holding an import permit for the types of goods involved may act as a consignee, provided that it first obtains a permit from *MINCEX* and registers with the National Commission Contract Registry operated by the Cuban Chamber of Commerce. Provided that the appropriate permits are obtained, consignment goods may be imported in bond, as described in the following section.

Cuban companies offering consignment services generally specialize in specific types of goods. Three Cuban government entities operate consignment warehousing: *Maprinter*, *Consumimport* and *Cubaexport*.

Bonded Warehouses

Goods imported in bond remain in a bonded warehouse and payment of duties and customs processing is deferred until they are removed. The regulations for in-bond importation are set out in Resolution 507 of 1995, which also covers consignment contracts. If the operator of the bonded warehouse is not registered in the National Commission Contract Registry, then it must be listed in the National Registry of Subsidiaries and Agents of Foreign Commercial Associations, also maintained by the Cuban Chamber of Commerce. Under certain circumstances, private companies can operate their own bonded warehouses, but only Cuban legal entities can offer such services on a commercial basis.

Two Cuban companies offer commercial bonded warehouse services: *Almacenes Universales SA* and *Zona Franca Habana.* The former operates warehouses in the *Wajay* and *Mariel* free zones and the later is located in the *Berroa* free zone.

Free Trade Zones

The Executive Committee of the Minister's Council authorized the formation of free trade zones in 1995. The government subsequently enacted Decree Law 165, which regulates Duty Free Zones and Industrial Parks. The regulations governing these zones are described in the Investing in Cuba chapter of this guide.

These zones offer certain advantages to some Canadian importers, particularly since private duty free warehouses may be located in the zones. The requirements for obtaining a free trade zone licence are considerably less onerous than for registering a representative office of a foreign firm. It is therefore possible for a Canadian company to set up an office and a bonded warehouse in a free trade zone, and then to export to Cuban customers from inventory, or just an office to sell goods from Canada. This avoids the requirement that foreign companies must establish a substantial trade relationship with Cuba before being allowed to open an office in national territory.

The principal limitation on this type of operation is that it cannot distribute. The free trade zones are technically outside Cuban national territory for customs purposes. Cuban customers must hold appropriate import permits and must send their own vehicles to the free trade zone to import the goods into Cuba. According to reports from foreign business executives operating in Cuba, customers sometimes use this regulation to their advantage by claiming that trucks are not available if they wish to delay taking possession of the goods.

MARKET ENTRY STRATEGIES

Canadian companies seeking to sell their products in Cuba cannot simply go there and set up a representative office as they might in most other countries. But market entry is gradually becoming easier. Prior to 1996, companies moving into the Cuban market had only two basic choices. They could sell from Canada or they could enter into an investment relationship with a government-controlled Cuban partner. But new options have emerged as government polices have been liberalized. In 1996, Decree Law 206 was approved establishing regulations for the National Register of Subsidiaries and Agents of Foreign Commercial Associations. And since 1997, new duty free industrial parks provide a fourth option: setting up a Cuban subsidiary to market Canadian products and to coordinate imports into Cuba.

Selling from Canada

Canadians can obtain a business visa and travel to Cuba, stay in a hotel, call on potential customers, show samples and make sales. This has become considerably simpler since Cuba simplified its procedures for issuing business visas. Until recently, the traveller lost the use of his or her passport for up to a month, while it was sent to Havana along with the application. Applications now require only a copy of the passport main page and are approved within 14 days. There is still a requirement to provide the names of Cuban entities that will be visited, the dates of the trip and an address in Cuba.

A Canadian company can use this approach to develop a market, and then contract with a Cuban trading house to ship on consignment to a duty free warehouse and arrange to have their product delivered from there. But Canadian companies cannot have a sales office in Cuba and their executives cannot take up residence there, unless they have established themselves in the market first.

Registered Agency or Office

Representative offices of foreign companies are permitted under Decree Law 206 of 1996. The *Cámara de Comercio de la República de Cuba* is responsible for managing the National Registry of Subsidiaries and Agents of Foreign Commercial Associations on behalf of the Ministry of Foreign Investment and Economic Cooperation *(MINVEC)*. The requirements are set out in detail in the Regulatory Environment chapter of this handbook. In brief, companies must have a five-year history in Canada and must have traded with Cuba for at least three years to be considered. In assessing applications, *Cámara* officials look for companies with technology, market access and capital. There is an unwritten rule that trade volume must have been at least US$ 500,000 annually over the qualifying period, but all the rules are flexible if the Canadian company's offerings are deemed to be in the national interest.

A licence to operate a representative office does not allow the company to carry on wholesale or retail distribution, and the representative office cannot be licensed as an importer. The company cannot take possession of goods directly, and must hire a registered Cuban agent to physically handle goods on consignment for customers holding import permits. Registration does, however, permit marketing and after-sales service activities.

Approved Cuban entities can be registered as an agent of the foreign company without the requirement for a minimum three-year business relationship. A Cuban agent cannot be the consignee of an import shipment. According to *MINCEX* Resolution 507 of 1995, a foreign company must have a contract with a registered Cuban agent before it can use the facilities of commercial duty free warehouses. The Canadian firm must also have a defined market for the product. The operators of the duty free warehouses, *Havana In Bond* and *Almacenes Universales* can serve as the agent.

A number of other Cuban companies specialize in representing foreign firms in the Cuban market. They include *Mercurio SA, Representaciones Platino SA, Cutisa, Codeme SA, Comercial Take Off SA*, *Tecnosime SA* and *Representaciones Culturales SA*.

Free Trade Zones

An enterprise that will operate primarily as an exporter can locate in one of the new *Zonas Francas*, duty free zones. The actual operation of these zones has only recently begun and the full scope of their implementation is not yet clear. In theory, they are among the most liberal in Latin America. They allow fully foreign-owned operations, along with substantial tax and duty advantages, and access to the region's most highly-qualified labour force.

The regulations governing free trade zone operations are described in detail in the chapter on Investing in Cuba. Briefly, the advantage to a Canadian exporter is the ability to set up a commercial office without satisfying the onerous requirements for registration as a foreign subsidiary. A company can register a commercial office for marketing and after-sales service, and it can also import goods to a bonded warehouse to support local sales. It cannot, however, conduct wholesale or retail distribution, and customers must hold import permits and must pick up the goods and clear customs themselves.

In early 2001, some foreign companies operating in Cuba were informally advised of new regulations under consideration by the Cuban government that would allow some assembly in duty free warehouses located in the free trade zones. Although these reports have not been officially confirmed, it is not unusual for Cuban officials to release information on new regulations informally and selectively. If the reports turn out to be accurate, companies with commercial (as opposed to manufacturing) licenses in the free trade zones could reduce some of their costs by assembling and packaging according to local demand. They would not be subject to the limitation imposed on manufacturing operations in the free trade zones, which must export 75 percent of their product.

Advertising

Advertising directed to the Cuban public is discouraged and for the most part commercial messages must be aimed at tourists and the expatriate community. There are a number of vehicles available for this type of advertising. Examples include *Opciones* magazine, *Cubavisión Internacional* (TV service in tourist hotels), and display advertising at airports, tourist sites and sporting events. Commercial advertising must be placed by approved Cuban entities, which include Premium Publicity, *Publicitur*, *Propaganda Nacional*, *Graphitel*.

THE REGULATORY ENVIRONMENT

Notwithstanding the recent reforms, the Government continues to direct virtually every aspect of the Cuban economy. The style of regulation is much different from that seen in most other countries. Legislation is enabling rather than definitive. The law and its regulations are often amended to reflect current practice. The regulatory environment therefore cannot be said to be 'transparent'. The law empowers officials to negotiate, and there is broad latitude for varying the regulations in individual cases, but there are no consistent standards and no way to learn of exceptions that have been allowed for competitors. On the other hand, this means that virtually everything that a foreign company might want to do is negotiable. Each new application for foreign investment is assessed individually and with the backing of a Cuban government ministry, exceptions to almost every regulation are possible. Understanding that legislation follows practice rather than the other way around is fundamental for any Canadian company doing business in Cuba.

FOREIGN INVESTMENT

There are several mechanisms available for foreign investment in Cuba, and ventures with 100 percent foreign participation are rare but technically possible. The usual vehicles are joint ventures with government-owned subsidiaries or licenses for operations in one of Cuba's three *Zonas Francas*, free trade zones. New regulations that would formalize the use of Build-Own-Operate-Transfer (BOOT) schemes for foreign investment are rumoured to be forthcoming. The foreign investment regulations are relatively complex and are the subject of a separate chapter of this guide.

REGISTRATION OF FOREIGN OFFICES

Foreign companies wishing to establish a presence in the Cuban market cannot simply go there and set up an office as they can in most other countries. Foreign companies must apply for permission to open representative offices in Cuba and must meet rigorous qualification criteria. There were 740 registered offices at the end of 2000, but the requirements are onerous and many Canadian companies do not qualify. They have the option of setting up an office in one of the free zones, where there are no serious restrictions, because the zones are regarded as being outside national territory.

Registration Requirements

Decree Law 206 of 1996 issued by the Ministry of Foreign Investment and Economic Cooperation *(MINVEC)* authorizes representative offices of foreign corporations and establishes conditions for their registration. The *Cámara de Comercio de la República de Cuba,* Chamber of Commerce of the Republic of Cuba, is responsible for managing the National Registry of Subsidiaries and Agents of Foreign Commercial Associations on behalf of *MINVEC*.

Applications will be considered provided that they meet certain qualifications. The company must have been in business in Canada for at least five years, and it must have been doing substantial business with Cuba for at least three years. Substantial business is usually considered to be US$ 500,000 per year. Exceptions to all of these requirements are possible for companies considered to support the national interest, and which have full backing from a Cuban ministry. Approved Cuban entities can be registered as an agent of the foreign company without the requirement for a minimum three-year business relationship.

Rights of Registered Representatives

A person registered to represent a foreign company in Cuba may conduct marketing activities, show samples, enter into contracts and provide after-sales service. But the Registered Office cannot be licensed as an importer and may engage in product distribution. The company must hire a registered Cuban agent to physically handle goods on consignment for customers holding import permits.

Registration with the Chamber of Commerce is the only way to open a legal office outside the free zones. Cuban authorities take a broad view of what constitutes an illegal office. Canadians have been sanctioned for operating unauthorized offices in residences and in at least one case in a hotel.

Application Process

Applications should be delivered to the Chamber of Commerce, which can also provide detailed instructions. (http://www.camaracuba.com) The application must be supported by detailed documentation. Officials of the Chamber say that missing or improperly certified documents are the most common problem with delayed applications.

The application itself consists of a writ signed by an officer of the Canadian corporation requesting authorization for the establishment of an office in the Republic of Cuba. This must be accompanied by the articles of incorporation of the company, including resolutions of the directors and/or shareholders, and a power of attorney setting out the authority of the Representative in Cuba, along with a copy of his or her Curriculum Vitae. In addition, the applicant must submit a description of commercial operations in Canada and a list of products and services offered in Cuba, identified according to the Harmonized System of commodity classification. This information must be provided both in hard copy and on floppy disk.

A list of the Cuban entities that the company is negotiating with is required, as well as letters of reference signed by a director of each entity. These letters must include the volume of business that has been conducted with each entity over the past three years. Also required is a corporate profile detailing the production, technical and service activities of the firm in Canada for the previous five years, as well as any branch offices in other countries that may be involved with Cuba. This profile must be supplemented with an explanation of why the company wants to open an office in Cuba, and the mutual benefits to be realized by the activities of the firm in Cuba. Finally, the application must be supported by bank references prepared by a Cuban bank and issued no more than three months prior to the submission of the application.

All documents must be translated into Spanish and translations must be accompanied by an affidavit from the translator certifying that they are true translations. All corporate documents, including the writ of application, must be notarized and legalized by the nearest Cuban Consul in Canada. Before authenticating these documents the consul will certify that they are legal documents in the company's Canadian jurisdiction and verify the signatures of the notaries involved.

Companies contemplating application for registration should obtain a formal copy of the filing requirements from the Chamber of Commerce, since the rules change from time to time. It is essential to understand the requirements in detail, since seemingly small errors can substantially delay an application.

Fees

Initial registration for a representative office is for five years and subsequent renewals are for three years. The bulk of the fees are payable on registration and renewal, with small additional payments due each year. Initial registration costs US$ 4,000, with $3,200 upon registration and $200 due in each of the following four years. Renewals are US$ 2,000, with $1,600 up front and $200 payments in each subsequent year.

LABOUR REGULATIONS

Under Decree Law 77, the Foreign Investment Law, foreign businesses cannot directly hire or pay Cuban workers. They must obtain labour services through an intermediary Cuban employer proposed by the Ministry of Foreign Investment and Economic Cooperation, and authorized by the Ministry of Labour and Social Security. These regulations apply both to companies operating under the Foreign Investment Law, and the free trade zone legislation.

The employing entity might be the Cuban partner in a joint venture or an employment agency such as *Acorec SA*. Foreign companies can propose that certain Cuban workers be hired, but the final decision rests with the Cuban employing entity.

Companies operating in the free trade zones may hire foreigners for technical and "top management" positions. But they must hire permanent residents through the single Cuban "employing entity" established for each zone. If a joint venture is 100 percent foreign-owned, *MINVEC* and the Ministry of Labour and Social Security, will designate an "employing entity."

Discipline and union negotiations are the responsibility of the employing entity, and some foreign executives say that inventory shrinkage can be a serious problem. The Ministry of Labour and Social Security *(MTSS),* sets minimum wages under Regulation 10. The law requires payment of time-and-one-half after 44 hours of work per week and double time for work on holidays.

Executives of foreign companies operating in Cuba say that the labour regulations are among the most severe impediments to doing business in Cuba. In practice, foreign firms generally exceed the minimum wages and are more interested in implementing incentive systems for under-motivated workers than minimizing wages. The reason for this is the large mark-ups applied by Cuban employing entities. Workers are paid in non-convertible pesos, with monthly salaries equivalent to about US$ 25 per month. But employers are billed in convertible pesos (equivalent to US dollars) at the rate of several hundred dollars per month, depending on the skills involved.

The government imposes two taxes on labour costs: an 11 percent labour utilization tax and a 14 percent social security contribution for a total of 25 percent. This charge is applied to the fee levied by the employing entity, not the wage paid to the employee. As a result, the labour tax is actually about 500 percent of the employee's salary.

Interviews with executives of foreign companies operating in Cuba revealed anecdotal information about labour practices prevailing in early 2001. All of the companies involved consider high labour costs to be an important impediment to operating in Cuba, and in some cases they say that this has resulted in the closure of some operations. They indicated that the cost of labour would not be an important problem if the workers were motivated, but that the inability to individually select workers, determine their compensation, and manage workplace discipline is a major concern. Foreign companies generally manage this problem by providing "incentives" in the form of perquisites.

Additional cash incentives are limited to 10 percent of the hard currency labour fee, and permission to pay them must be incorporated into joint venture agreements. Aside from being illegal, any "under the table" payments would not be tax deductible by the joint venture.

Non-cash perquisites include a wide variety of benefits, including transportation and lunches. It is common, even among Cuban entities operating in the external sector, to provide a regular "*jaba*", package, -- sometimes on a daily basis. The *jaba* contains consumer items that are hard to get with pesos, especially toiletries. As one executive expressed it: "Cubans like to look nice and smell nice", but good-quality toiletries are impossible to get with pesos. A Cuban worker told an interviewer that obtaining a daily *jaba* combined with a free nutritious meal was the principal reason for going to work. This mechanism allows the foreign employer not only to retain the most productive employees but also to encourage them to report for work on a regular basis.

Total employment costs, including official labour charges, the labour tax and additional incentives were reported by knowledgeable observers to range from US$ 600 per month for a warehouse labourer, to about US$ 1,000 for a miner. The labourer works out to close to C$ 5.00 per hour, and the true cost is much higher considering the low levels of motivation that can be expected from an employee with a formal salary equivalent to about 20 Canadian cents per hour.

Under the foreign investment law, there is some limited room for negotiation over incentives. For example, foreign companies can agree with Cuban authorities on a scheme of hard currency incentives to be paid to local workers on top of the peso salaries they receive from the employing entity. Many Canadian investors do so. The free trade zone regulations permit incentives in the form of food, clothing and transportation as well as up to 10 percent of monetary compensation in hard currency.

VEHICLE PERMITS

The ownership of private vehicles is tightly regulated. Foreign companies must apply for permits to obtain vehicles, which will be issued only on the basis of demonstrated business needs. This is time consuming but generally possible for firms with genuine needs for vehicles. Foreign-owned passenger cars are issued with special license plates so they cannot be re-sold in the local market, where privately-owned vehicles bear a plate designated *particular*.

Foreign executives are strongly advised to hire drivers for their vehicles rather than drive in Cuba themselves. Under Cuba's justice system, a driver accused of being at fault in an accident can end up in jail with his or her car seized. Even under the best of circumstances, a foreign driver could end up staying in an expensive tourist hotel for months, forced to remain in the country while police and insurance authorities investigate. There are also serious inadequacies in Cuba's vehicle insurance system.

DISPUTE ARBITRATION

Canada and Cuba are in the process of negotiating a bilateral investment protection agreement that will protect Canadian investments from unreasonable expropriation. When this agreement is concluded, it will be enforceable through government-to-government mechanisms or through international arbitration mechanisms. Meanwhile, Cuban law governs contracts, although private disputes between partners in a Cuban joint venture or economic association may be resolved through third-party arbitration.

In theory, such disputes are supposed to be resolved by Cuba's Foreign Trade Arbitration Court. The *Cámara de Comercio de la República de Cuba*, Chamber of Commerce of the Republic of Cuba, administers this court, created by Decree Law 1303 of 1976. The Chamber maintains a jury of 15 arbitrators. This process has fallen into disuse because of concerns about the independence of the arbitrators. Moreover, since the records of government entities engaged in joint ventures are not a matter of public record, and can be subject to manipulation, some companies have had difficulty proving their claims.

In is now common practice for legal agreements involving foreigners to include a third-party dispute resolution clause in accordance with International Chamber of Commerce (ICC) and United Nations (UNCITRAL) rules. Cuba became a member of the ICC in 1998.

BUSINESS TAXES AND PROFIT REPATRIATION

Joint ventures are free to distribute their profits according to the partnership agreement, and there are no restrictions on the repatriation of profits. Joint ventures are required to retain a contingency fund within the country, which is usually 5 percent of profits until the fund reaches a maximum reserve of 15 percent of the capital stock.

Decree Law 73 of 1994 sets out the general taxation system, and this has been supplemented by a series of tax regulations. Beginning in 1997, foreign companies were required to submit taxes under this law. The application of these regulations can be complex, and the Canadian embassy recommends that companies establishing Cuban operations seek guidance from a lawyer or accounting firm familiar with Cuban tax law.

There is a special taxation system for joint ventures authorized under Decree Law 77. The official rate is 30 percent of annual net profit. But this law authorizes the Executive Committee of the Council of Ministers to authorize total or partial exemptions from this tax when profits are reinvested in Cuba, or when it is in the national interest. In other words, the tax rate is generally negotiable. Profit taxes can be as high as 50 percent for ventures in the extractive industries. The official rate on companies with totally foreign capital is 35 percent. There is a provision for taxes to be levied on gross revenue in cases where profit is difficult to determine. Taxes must be paid in freely convertible currency, even if the amount is specified in pesos.

Tax exemptions are available to companies establishing operations in the free trade zones, lasting several years, depending on the type of operation involved. The free zone regulations are discussed in detail in the chapter on Investing in Cuba.

PERSONAL TAXES

Personal taxes may be levied on foreigners residing in Cuba for 180 days or more per year, if their income comes from a Cuban source. The rates are progressive with a maximum tax of 50 percent on annual earnings greater than US $60,000. There may be exceptions for employees of joint ventures. Canada does not yet have a tax agreement with Cuba that would avoid double taxation.

INTELLECTUAL PROPERTY

International property is protected by a number of laws. Decree Law 68 of 1983 concerns inventions and trademarks in general, while Decree Law 160 of 1995 deals specifically with chemical and pharmaceutical products for agriculture. Cuba is a signatory to the 1994 Agreement on Trade-Related Aspects of International Property Rights (TRIPS) under the World Trade Organization, and was required to be fully compliant by January 2000. To bring this about, Decree Law 203 of December 1999 updated the earlier law, and formally complied with the TRIPS requirement that all countries must establish standard legislation and procedural rules concerning trade names, trademarks and distinctive signs.

New regulations by the Ministry of Culture were published in the official gazette on July 29, 1999 (*Resolución Conjunta No 1, Capitulo III*), and set out specific copyright protections for computer software.

Cuba is also a signatory to other major international agreements on intellectual property, including the World Intellectual Property Organization, the Paris Convention, the Lisbon Agreement of the Protection of Appellations of Origin, the Madrid Agreement concerning International Registration of Trade Marks, and the Inter-American Convention for Protection of Trade Marks.

The National Office of Inventions, Technical Information and Trademarks (ONIITEM) registers trademarks and patents, in accordance with the International Classification of Patents system. A foreigner may register a trademark or copyright but must work through a Cuban agent. A list of acceptable agents published by the government in July 2000 included several companies. Independent experts recommend *Bufet LEX S.A.* There are about 30,000 trade marks registered in Cuba, the majority of them held by American corporations.

Registration of trademarks and slogans for products destined for commercial sale either domestically or for export is compulsory. Trademarks must be used within three years of issuance. Trademark registration is also compulsory for the inventions of citizens, even if they originated abroad.

Enforcement

In spite of Cuba's participation in international agreements, enforcement of intellectual property rights has been difficult for some foreign companies. In some cases, products have been allegedly "reverse-engineered" and lower-cost Cuban products have been produced. Patent protection is difficult to enforce and foreign companies have complained that they could not get access to records or product samples in the possession of their Cuban partners. Moreover, Cuban government entities face a conflict of interest in that they are both party to these disputes and responsible for investigating them. Some foreign executives say that their complaints have not been resolved as a result.

Staff of the Canadian Embassy can intervene in such disputes only if it can be demonstrated that the complainant has clearly been frustrated in its attempt to follow appropriate due process under Cuban law. Cuban law provides for joint venture disputes to be resolved through the arbitration facilities of the *Cámara de Comercio de la República de Cuba*, Cuban Chamber of Commerce. This process has generally found to be unsatisfactory by foreign executives, who doubt the independence of the Chamber's arbitrators.

Canadian companies importing proprietary technologies into Cuba can attempt to retain control of them through operational means, such as retaining physical possession of key components or allowing production only in the presence of designated staff. Even then, one executive commented that the ingenuity of Cuban engineers in developing ad-hoc solutions should not be underestimated. Canadian companies can also write international arbitration provisions into contracts negotiated with Cuban counterparts. The Canadian Embassy in Havana or the Investment and Intellectual Property Division of Canada's Department of Foreign Affairs and International Trade (DFAIT) in Ottawa can provide advice.

PRODUCT STANDARDS

As a member of the World Trade Organization (WTO), and a member of the WTO Technical Obstacles Committee, Cuba is committed to removing technical barriers to trade. Cuba's *Oficina Nacional de Normalización (NC)* National Standards Office, is responsible for compliance and also represents Cuba in relationships with the International Organization for Standardization, the International Metrology Organization, the UN Codex Committee on Food Labelling, the Pan-American Technical Standards Committee, the Interamerican Metrology System and the Interamerican Accreditation Cooperation. The NC is also accredited as the National Certification Organization, for such standards as the ISO 9000 series.

The NC is responsible for Cuba's system of compulsory product standards set out in Resolution 30 of 2000. The standards of interest to importers and exporters are mainly those for packaging and marking. They can be obtained from the NC at the address provided in the contacts section of this guide.

A Cuban government entity called *CUBACONTROL* provides product inspection services in Cuba and abroad, for the purpose of certifying that products meet quality standards and other specifications prior to shipping and payment. This service is compulsory for Cuban companies engaged in importing or exporting, but optional for foreign firms. *CUBACONTROL* has its own inspectors in Cuba, Russia and Mexico, and uses the services of agents in a number of other locations, including Geneva and London.

PUBLIC HEALTH REGULATIONS

Certain products must be registered and approved before they can be imported or exported. There are two levels of regulation and food products must comply with both.

Health Regulations

The *Ministerio de Salud Pública (MINSAP),* Ministry of Public Health, is responsible for the administration of Cuba's regulations governing the health and safety of products destined for "domestic or personal use". The National Institute of Health and Nutrition, which is part of the Ministry, maintains the Sanitary Register of Foods and Cosmetics and Articles for Domestic and Personal Use. Decree Laws 54 of 1982 and 41 of 1983 provide the foundation for these regulations. There are several related regulations, the most recent of which is set out in Resolution 30 of 2000.

Prospective importers and exporters of all food products, food additives, and cosmetics as well as toys and other "articles for domestic or personal use" must apply to the National Food Health and Nutrition Institute to have their products registered. Product samples must be submitted with the application and the importer/exporter must provide documentation to show that it is a properly registered legal entity, with permission to engage in foreign trade. For food products, documentation demonstrating prior registration with the Ministry of Agriculture is required, and product samples must also comply with Cuba's labelling regulations.

Sanitary and Phytosanitary Regulations

The *Ministerio de la Agricultura (MINAGRI).* Ministry of Agriculture, maintains separate systems of sanitary and phytosanitary regulations and inspections. These regulations include requirements for permits for individual shipments, which must be obtained in advance. In addition, the Ministry maintains a list of prohibited products, which changes periodically and which overrides any permits already issued.

All animals and animal-based products are subject to regulation under Decree Laws 137 and 181 of 1993. The National Institute of Veterinary Medicine is responsible for the registration of these goods as well as veterinary products. In addition to live animals and animal products, the regulations extend to microbial or parasitic agents, serum, hormones, vaccines, cultures, and all other products derived from animals. Resolution 68/99 of the *Ministerio de la Industria Pesquera (MIP)* Ministry of the Fishing Industry, sets out sanitary regulations for fish products.

A detailed list of sanitary requirements is provided as part of the application process, which must be initiated no less than 15 days prior to the proposed shipment. A sanitary certificate from the country of origin must accompany samples of imported animal products.

The National Plant Health Centre regulates the importation of plants and plant-based products under the provision of Decree Law 153 and Resolution 435 of 1994. These regulations apply to all plants and products of plant origin, including seeds, forest products, soil, and organic fertilizers, as well as organisms or pest carriers that may be dangerous to agriculture. An international phytosanitary certificate issued in compliance with the United Nations International Phytosanitary Protection Convention must accompany all imports of these products. In general, if the product is authorized for sale in Canada, it probably meets Cuban regulations, and health certificates issued by Canadian governments are generally acceptable.

Small amounts (less than 5 kilograms or 20 units) of some plant products, including fresh flowers, tea, herbs, pastas, exotic fruit and crafts made from plant materials, may be cleared by a border inspector without prior authorization. Otherwise, an application for an import permit must be submitted no less than 60 days prior to shipment.

PACKAGING AND LABELLING REGULATIONS

The National Standards Office administers regulations for the labelling and packaging of some consumer goods. These standards are similar to those in other countries, including Canada. The principal difference is that these regulations are enforced at the border rather than at the store shelf. For example, samples for registration by the National Institute of Health and Nutrition prior to importation must comply with all labelling regulations.

Cuba adheres to the practices of the major international standards organizations, including the International Standards Organization (ISO) and the International Legal Metrology Organization (ILMO). The *Centro Nacional de Envases y Embalajes*, National Centre for Containers and Packaging, develops and promulgates packaging and labelling standards, and works to harmonize Cuban practices with international standards. The Centre also offers production, laboratory, technical and training services to industry on a fee for service basis.

The most important class of goods subject to labelling requirements is pre-packaged food products, which are covered by *CODEX STAN* 1-1985. The regulations require that the label identify the name of the product, country of origin, commercial brand, and the name and address of the producer, as well as weight, ingredients and additives. The label, which must be in Spanish, (or otherwise be easily understood by the consumer) must also include production and expiry dates as well as instructions for use and preservation.

LAND TENURE

The Cuban Constitution does not permit the sale of land. Foreigners can participate as investors in the real estate development business, but they are not allowed to buy residences. Land for commercial and industrial enterprises is usually acquired through Cuban joint venture partners or leased. There is some confusion about this point in the media, because Cuba did briefly legalize foreign participation in residential real estate development. There was a surge of activity following the issuance of detailed enabling regulations in early 1999. Five real estate joint ventures were set up in 1998 to develop residential and office condominiums. The Cuban partners contributed land, and the foreign partners contributed capital and building expertise. Condominium units were supposed to be sold on a term-tenure basis, reportedly for 45 years. This created a wave of speculation, which the Cuban government disapproved of, so it bought out the assets of the existing residential joint ventures, which provide rental residences. Real estate joint ventures for tourism and office buildings are still possible.

VIVIENDA LAW

There is a considerable shortage of commercial and residential space available to foreigners, and as a result, foreign companies began to establish offices or homes in private houses, paying rent directly to the owners.

The Cuban government moved to stop this practice. Decree Law 171 of 15 May 1997, prohibits the rental of Cuban private accommodation to foreign companies or their representatives. Foreign companies are therefore limited to hotels or facilities rented from real estate joint ventures.

The state housing enterprise *Cubalse* has waiting lists of up to one year for accommodation. A three-bedroom bungalow in Havana rents for at least US $4,000 per month. Additional space is becoming available in several commercial buildings under renovation, and in new or renovated apartment blocks.

The inability of foreigners to own land or to negotiate mortgages in Cuba remains as a key impediment to investors and resident foreign business representatives.

ONE-STOP REGULATORY APPROVALS

There have been many complaints from foreign companies operating in Cuba concerning the excessive bureaucracy required to obtain licenses and regulatory approvals. In some cases the problem was exacerbated by conflicting requirements of different ministries. The government has moved to resolve this issue with the implementation in 2001 of a new one-stop regulatory office for foreign firms, operated by *MINVEC*. Known by the acronym *ONINVEX*, The National Office for Foreign Investment claims "quickness and professionalism in the foreign investment processes". It offers a single application form, for permits, licenses, authorizations, certifications, registration, insurance, immigration permits, and banking arrangements. *ONINVEX* officials will interact with their counterparts in all relevant ministries to expedite the approval process. Foreign companies will deal with the government on a single-window basis requiring interaction only with *MINVEC*.

Cuban officials say that *ONINVEX* will go into full operation by mid-2001with offices in each of the free trade zones and also in the Cuban Embassy in Ottawa. Offices will also be located throughout the country with first priority going to areas where foreign investors are located. There are plans to have one office in every province.

ONINVEX also includes an information management system, known as the Managerial-Economic Cooperation Program. This program will offer access to databases, supplier searches, and quality certification advice, export promotion, and related services.

At time of writing, *ONINVEX* had been officially launched, and promotional posters were printed, but it was not possible to evaluate the effectiveness of the services provided. In principle, however, *ONINVEX* holds considerable promise for foreign firms weary of endless bureaucracy.

CANADIAN EXPORT CONTROLS

Under Canada's Export-Import Permits Act, an export permit from the Department of Foreign Affairs and International Trade (DFAIT) is required for certain goods. They include goods that are on Canada's list of controlled goods and exports to countries that are on Canada's Area Control List. All goods originating in the US are on Canada's Export Control List, but Cuba is not on Canada's Area Control List. Therefore the regulations apply only to goods that are controlled by Canada under international agreements and to goods originating in the United States. A list of controlled goods is included in the publication *A Guide to Canada's Export Controls*, which is available from DFAIT. It is available on the Internet from DFAITs Import and Export Control Bureau at http://www.dfait-maeci.gc.ca/~eicb .

Exporters wishing to ship any goods included on Canada's Export Control List (which includes category 5400, goods of US origin) must submit an application for an export permit. If the goods are of US origin, a copy of a US export licence authorizing sale to a third country must be attached. The General Export Permit, which is available for multiple shipments of goods to some countries, is not applicable to Cuba. Individual applications for each shipment must be submitted using DFAIT's form EXT-1024, Application for Permit to Export Goods. The applications can be sent by courier to

Ottawa, and for most goods, processing time is within 10 days of receipt. There is no fee for export permits to Cuba except for the cost of couriers if this type of delivery is requested. For further information, exporters can contact the Export Controls Division of DFAIT at (613) 996-2387 or fax (613) 996-9933. The Division's email address is epe@defait-maeci.gc.ca.

THE AMERICAN EMBARGO

The Government of the United States has passed a number of laws designed to prevent or discourage trade with and investment in Cuba. The US imposed a partial ban on exports to Cuba in October 1960. The following January, it broke diplomatic relations and imposed a full trade embargo under the Cuban Assets Control Regulations, which are enabled by Title 31 of the US Code of Federal Regulations. Travel to Cuba is prohibited for American citizens except as licensed by the Treasury Department.

The US regulations were revised many times over the years in response to political events. At various times travel restrictions were loosened or tightened as were limits on remittances of Cuban-Americans to their families in Cuba. But in general, the American government was careful to limit the extraterritorial aspects of the law. Applications to the Treasury Department by American parent companies to allow their foreign subsidiaries to export to Cuba were routinely approved, subject to limits on American content. In 1990, Cuba imported more than US $700 million worth of products from American subsidiaries in authorized transactions. More than 70 percent of this figure was food.

In 1992, the situation changed abruptly with the passage of the Cuban Democracy Act, also known as the Torricelli Act. It applies the full force of the Cuban Assets Control Regulations to all foreign subsidiaries of American corporations. It also prohibits third-country ships from entering American ports for six months after departing from a Cuban port. Ships are also forbidden to enter such ports when carrying passengers or goods to or from Cuba.

Many countries, including Canada, objected to the extraterritorial aspects of this legislation. Canada responded by enacting a blocking order under the Foreign Extraterritorial Measures Act (FEMA) in 1992. It requires Canadian companies, which receive instructions not to trade with Cuba, to disregard the instructions and to report the instructions to the Attorney General of Canada.

The situation escalated again in 1996, with the passage of the Cuban Liberty and Democratic Solidarity (*Libertad*) Act, more commonly known as the Helms-Burton Act. Its objective was to extend the extraterritorial reach of the American embargo by discouraging other countries from investing in or operating joint ventures in Cuba.

Title III of the Act gives American nationals who have claims to property nationalized by the Cuban government the right to sue foreign companies that benefit from the use of the property. This right extends to Cubans who were not American citizens at the time the property was nationalized. Companies which use such property can be sued and have property seized in the United States. Claims may be made for three times the value of the Cuban property — plus legal costs. The Act refers to "trafficking" in nationalized property, and defines this in very broad terms. It includes not only purchasing or leasing the property, but also benefiting from its use through any commercial operation. It also includes the use of trademarks or licences claimed by American companies. President Clinton allowed the Act to come into force, but suspended the application of Title III for a six month period beginning in August 1 1996 and for another six months beginning February 1, 1997. The suspension has been regularly renewed since then. Companies that "traffic" in nationalized assets are potentially liable under the Act, because only the right to sue has been suspended.

Title IV of the Act allows American authorities to bar executives of companies which traffic in nationalized property from entering the United States. This also applies to their immediate families. According to media reports, this provision has been used against several directors of Sherritt International, but it is unlikely to affect most Canadian investors.

In 2000, President Clinton signed into law a related bill that allows food and medicine sales to Cuba, but the law prohibits financing of such transactions by banks domiciled in the United States. Since these goods are already available from many other countries, this measure has few practical implications, except that it permits American competitors to sell limited product lines in Cuba if they can obtain foreign financing.

The Canadian government responded by amending FEMA to increase protection for Canadian businesses affected by the Helms-Burton Act. FEMA makes it illegal for a Canadian company to comply with extra-territorial laws of other countries, and it also makes judgments under objectionable foreign laws unenforceable in Canada. It also allows Canadians who are sued in the US to recover any amounts awarded if the other party has assets in Canada. And it raises the maximum penalty for violating FEMA to C$ 1.5 million.

The Government of Cuba also responded with "antidote" legislation. The Reaffirmation of Cuban Dignity and Sovereignty Law (Law 80) was approved on December 24, 1996. It reaffirms Cuba's willingness to negotiate property claim settlements with persons who were American citizens at the time of nationalization. But it provides that any person who uses the provisions of the Helms-Burton Act will be excluded from negotiations concerning settlement of outstanding property claims. It also enables the creation of "fiduciary companies" or investment funds to hold disputed property. The legislation makes it unlawful for any person to "collaborate" with anyone seeking information to support an action under Helms-Burton. Finally, it reaffirms that remittances from family members in the US will not be taxed.

The Cuban government has also implemented a number of administrative procedures in response to the new American legislation. Among other measures, it is no longer publishing lists of approved foreign investments in Cuba.

By early 2001, three companies, including Canada's Sheritt International, *Grupo Domos* of Mexico, and BM Group of Israel, had been sanctioned under Title IV, for operating in Cuba using property allegedly nationalized from American companies. *Grupo Domos* subsequently divested its interests in Cuba and is no longer affected by Helms Burton. Canadian companies with assets in the US should consider whether American legislation would apply to them. The Canadian Department of Foreign Affairs and International Trade (DFAIT) strongly advises Canadian companies operating in Cuba to seek professional legal advice about these matters. This situation is evolving and Canadian companies active in Cuba should keep themselves informed of its progress.

THE BUSINESS ENVIRONMENT

Doing business in Cuba requires an understanding of the highly-complex business environment there. There are many areas where nearly four decades of the Cuban revolutionary experience has given the underlying Hispanic culture a unique flavour and created difficult business conditions.

VISAS

Canadian business executives who travel to Cuba to conduct business require business visas. They can be obtained from the Embassy of Cuba in Ottawa or the Cuban Consulates in Montreal, Toronto, or Vancouver for a payment of approximately US $100. Business visitors must provide details of the purpose of their trip and the organizations they will visit on the application form. Approval of visa applications can generally be obtained within 15 days.

Business visas are now issued as "flying visas" not attached to the traveller's passport. Multiple entry business visas are available for corporations with established business links with Cuba. Usually, these visas can be obtained through Cuban partners.

Tourists can enter Cuba using a tourist card that can be purchased for US $22.00 from a travel agent authorized to book flights to Cuba. Business visitors should travel on appropriate business visas in order to ensure full access to government officials and negotiators. Baggage may be searched on departure, and travellers using tourist visas may be questioned concerning any business materials in their possession. It is no longer possible to upgrade a tourist visa to a business visa within Cuba. The departure process includes immigration and customs inspections; and lost tourist cards or business visas must be replaced for a fee.

TAXIS AND RENTAL CARS

Havana has several fleets of modern taxis for tourists including *Taxis OK*, *Turistaxi* and *Panataxi*. There are many private taxis, both licensed and unlicensed, but foreigners are advised to avoid them. These cars tend to be in poor condition. The legal taxis are metered according to government-regulated rates. A trip from the airport to the downtown hotels is roughly US $15 to $25 and a cross-town trip ranges from US $5 to US $20. Small bills are essential, since drivers often claim that they cannot make change.

The Department of Foreign Affairs and International Trade (DFAIT) advises Canadian visitors not to rent cars in Cuba. Although insurance is offered, if you are in any way at fault in an accident, rental agencies will nullify coverage and seek damages. Rental agencies are controlled by the government, and will threaten to prevent your departure to obtain payment. Traffic accidents resulting in 3rd-party injuries are considered to be a crime until responsibility has been established by the police. This may take up to several months and often the driver will not be allowed to leave the country until the investigation is complete. Trial and imprisonment are real possibilities. For full details see the online DFAIT Cuba travel advisory: http://voyage.dfait-maeci.gc.ca/destinations/menu_e.htm . Companies doing business in Cuba on a long-term basis can obtain a permit to buy a car and hire a driver through a Cuban government employment entity.

HOTELS

Havana has several hotels catering to foreigners, with prices set in US dollars. The *Meliá Cohiba*, the *Meliá Habana* and the *Hotel Nacional* offer executive floors, as do some other high-end hotels at prices in the US $250 per night range. The closest hotel to the Canadian Embassy is the *Novotel Miramar* with prices in the US $125-to-$150 range for a standard room. Other popular hotels for Canadians include the *Chateau Miramar* and the *Copacabana*, which are also close to the Canadian Embassy. The *Hotel Nacional* and the *Habana Libre* are located in central Havana near some key government ministries. Regular business visitors can get special corporate rates in most major hotels.

Most of these hotels have business centres with computer, Internet and fax facilities. The quality of the major Cuban hotels is comparable to their Canadian counterparts in the same price range, except that service employees tend to be more numerous but far less motivated, partly because they work for government employment entities rather than the hotels themselves. Tips are pooled through a process that may require workers who receive unobserved hard currency tips (such as room cleaners) to pay fees to the pool based on their estimated tips. Satellite television, including CNN, HBO and other American stations is provided.

MEALS

Cuban food is not as varied as Canada's. Nonetheless, there is reasonable variety in the hotel restaurants, considering the food shortages prevailing in the country. Beef, pork, eggs and other scarce commodities are available in the hotels and there is usually a large variety of local fruit, including papaya, mango, bananas and citrus. There are many private restaurants operating in hard currency that offer reasonable quality, but limited variety. Prices depend on the import content of the meal. French wine, in particular, often attracts an exaggerated premium price.

Hotel dining room prices are generally comparable to those in Canada, although luxury foods can cost considerably more. Dinner in a private Cuban restaurant known as a *paladar,* often located in a converted house, usually costs between US $15 and $20. These restaurants are not allowed to serve certain luxury foods such as beef and lobster, although this limitation has been partially waved for the semi-private restaurants in Havana's *Barrio Chino*, as part of a cultural exchange agreement with Vancouver's Chinese community.

Restaurant patrons should be careful to examine bills before paying, especially if they are paying by credit card. Interestingly, dishonest practices are generally much different from those seen in some developed countries. A common scheme is for the waiter to omit an expensive item, such as a bottle of wine, from the bill and then "discover" the error after a credit card has been run. A demand is then made for cash payment, with the explanation that only one credit card charge per meal is possible, or that the phone line is not available to approve a further charge. The underlying fraud is that the wine was provided from the personal supply of a group of staff and not from the restaurant's inventory.

Business meals in state-run restaurants are a good way to build friendships with Cuban associates, but foreigners should not take officials to private restaurants.

CREDIT CARDS

Master Card and Visa credit cards are accepted in all of the major hotels provided that the cards are not issued in the United States. Other acceptable cards include Access, Eurocard, Carnet, Cabal and Banamex. American Express is not accepted. There is a credit card centre in downtown Havana where cash advances can be obtained on credit cards. This can also be done at some of the larger tourist hotels.

These credit cards are also accepted, in theory, by a wide range of hotels, restaurants and tourist stores. But visitors should not necessarily expect the cards to be useable in these outlets because of difficulties in obtaining telephone connections for authorizations. Even in large tourist hotels credit card authorizations can be a problem because of phone line problems and it is prudent to allow extra time for checkout in case of difficulty. In some cases restaurants claim that there are no qualified staff available to process credit card transactions. It is prudent to carry sufficient cash to cover purchases in case the cards are not honoured and to enquire about their use prior to ordering a meal or making a purchase. A passport is generally required to use credit cards or to use currency denominations larger than US $50.

COURIERS

Regular postal service to Cuba is not a good alternative for Canadian companies. Letters from Cuba to Canada can take as long as two to three months to be delivered.

Hellmann Worldwide Logistics, based in Toronto, offers a reliable courier service to Cuba, and has a Cuban office in the Wajay Free Zone. The company makes bi-weekly shipments on Wednesdays and Saturdays known as Hot Express. Details are provided in the contacts section of this guide.

DHL Worldwide Express also provides courier service to Cuba, but users report long delays for deliveries because shipments are routed through European countries. DHL offices in Cuba also sell foreign newspapers and magazines, which are otherwise scarce.

COMMUNICATIONS

Some visitors rent cellular telephones from their hotel or at the Havana airport. These phones can originate international calls and avoid the difficulties of access to the local system. In spite of recent improvements to the system, busy signals are still very common on local calls.

LEGAL ADVICE

Foreign lawyers cannot practice in Cuba. A few offshore investment consultants with legal backgrounds have been licensed to provide advice to foreign investors, but they are not permitted to provide legal advice. Prospective investors can also seek professional advice from international law specialists in Canada, a few of which have experience in Cuba. There are several Cuban legal firms catering to foreign companies, and they are sometimes useful for specialized advice, but they are not independent of the government entities that Canadian companies may be negotiating with. The contacts section of this guide provides additional details.

GETTING PAID

Foreign companies operating in Cuba have experienced increasing difficulties collecting money owed to them by Cuban entities. The Cuban financial system suffers from chronic hard currency liquidity problems that have recently been exacerbated by an unfortunate combination of low prices for Cuban export commodities and high oil prices. Short-term insurance facilities of the Export Development Corporation (EDC) are not available to Canadian exporters due to longstanding debt problems.

Cuban customers routinely ask for very long payment periods and prefer to do business with bills of exchange, rather than letters of credit. Bills of exchange do not provide security to the exporter unless they are first endorsed by the purchaser's bank. There have been reports of problems clearing bills of exchange because some Cuban customers did not send the necessary documentation to their bank at the time of sale.

The Trade and Economic Section of the Canadian Embassy in Havana recommends that companies consult a financial institution that discounts Cuban commercial papers in advance of the transaction to assess the risk involved. They should also avoid accepting bills of exchange that have not been endorsed by the purchaser's bank. Canadian companies may want to consider discounting bills, but the cost can be quite high.

SECURITY

The influx of affluent foreign visitors, mixing with people who have little disposable income, creates the same problems in Cuba that it does in other parts of the world. Petty theft is a problem and it is not wise to carry anything that is not necessary. Foreigners are conspicuous in the streets and there have been cases of muggings, especially of women. On the other hand, armed robbery is a very serious crime in Cuba and is virtually unknown in areas frequented by foreigners. The best defence is to carry little cash and avoid flashy jewellery or other ostentatious items. The major hotels have in-room safes.

TRAVEL

Before travelling to Cuba or any developing country, Canadian business visitors are advised to check the Canadian DFAIT on-line travel information and advisory reports: http://voyage.dfait-maeci.gc.ca/destinations/menu_e.htm. They provide detailed current information about problems experienced by Canadian visitors to countries around the world.

LANGUAGE

Some officials are willing to conduct meetings in English, but if complex business matters will be involved, Spanish is preferred. As in other Latin American countries, Cubans speak Spanish with a unique accent. Cubans are generally less formal than other Latin Americans and often use *tu* rather than *usted* even with a new acquaintance. Interpreters are readily available.

All legal agreements and corporate documents for license applications must be in Spanish. Official business documents, such as those proving the existence of the corporation, and providing powers of attorney, can be translated in Canada, but a notarized statement that the translation is accurate must be obtained from the translator. Legalization by Cuban missions in Canada is required.

BUSINESS CULTURE

Cubans have many things in common with other Latin Americans but the business culture differs in a number of important ways. Like other Latin Americans, Cubans are friendly and outgoing and tend to have a ready sense of humour. They like to form friendships with people with whom they do business.

On the other hand, they do not require hours or even days to get to know a visitor before they will talk business. On the contrary, they usually start meetings on time with an opening like "what can I do for you?" Canadians should avoid wasting the officials' time with vague questions. They should immediately explain what they are doing and state what the official can do to help. The more specific the request the better. Business cards are exchanged at the beginning of meetings. The level of hospitality varies considerably. Sometimes, juice, coffee or cake is served. Less frequently, cigars are offered. Meetings end when business is complete, or when the official has another appointment. The usual manners seen in Canada are appropriate.

Most Canadians will encounter Cuban officials in formal business meetings. These can take time to arrange. Middle-level officials must first obtain permission to meet with a foreigner and meeting rooms must be booked. More senior officials, especially those outside the formal government structure, can meet visitors in their offices. But they tend to be busy and it can take time to arrange these meetings too.

Even senior officials may not be in a position to give away publications. Government publications are usually sold for a fee, and the visitor should always offer to pay and have the appropriate amount of American currency available. Small booklets range from US $10 to US $50 and official receipts are issued. If a publication is offered free, that is probably a sign that the official sees some value in what the visitor is doing and it should be accepted with thanks.

Information Sources

The discussion of the Cuban business environment and politics presented in this guide is based on in-depth interviews with business executives operating in Cuba, as well as discussions with a number of Canadian and Cuban government officials.

This information is consistent with the findings of many independent researchers who have written about Cuba, but it does not represent official positions of the Government of Canada or the Government of Cuba. It is intended only as general advice for Canadian executives making their first entry into the Cuban market. Experienced exporters and investors will form their own conclusions.

POLITICAL ECONOMY ISSUES

There are some aspects of the current economic situation that are not acknowledged and are best avoided in conversation. The "special period in peacetime" has led to many hardships. The true extent of those hardships is likely to be minimized by Cuban officials. Moreover, they tend to blame the difficulties on the market disruption caused by the break-up of the former Soviet Union and on the American embargo. The fact that Cuba has for many years been unreasonably dependent on a small number of markets for crude and mass-produced products, at subsidized prices, is not discussed.

The fact that the Cuban economy tends to be inefficient and often uses obsolete and environmentally-harmful technology is also not generally acknowledged. When a Cuban refers to an industrial plant as incorporating "the latest Soviet technology", this is not a deliberate oxymoron. Canadian offers of technology transfer should stress its sophistication and applicability to Cuban applications, but should avoid criticizing the Soviet-bloc systems already in place.

Another subject to avoid is the size of the subsidy that Cuba formerly received from the Soviets. The fact that the economy was not self-sustaining under Soviet influence is not entirely acknowledged. Most officials say only that the country enjoyed a number of "credits" which were a natural part of its "socialist partnerships." Independent analysts estimate the total subsidy at about US $40 billion between 1962 and 1989. In some years, the subsidy amounted to as much as one-quarter of Cuba's GDP.

The Cuban government explanation of the partial economic reforms introduced in the 1990s is that they are intended to reinforce the socialist system and not to replace it. Few independent observers believe that the communist system will avoid profound changes as a result of the influx of traders, investors and tourists from the western democracies, and the partial "dollarization" of domestic markets. But this is not generally acknowledged by those holding official positions. Indeed, the extent of the dollarization remains under active and continual discussion within the Cuban government, and "privatization" is still a dirty word.

Canadians should be cautious about their use of the word "expropriate." This term is used to refer to the seizure of assets from criminals, including those associated with the Batista regime. Land that was appropriated by the state as part of the imposition of socialism is referred to as having been "nationalized."

Finally, Canadians should be aware that Cubans are not as poor as some stories in the American press suggest. There are shortages of consumer goods for Cubans who do not have access to dollars. But Cubans will be offended by suggestions that they are desperate. While many families are devoting considerable time to acquiring basic necessities, most of them are approaching the "special period" with dignity. A typical wage of US $20 per month or less sounds meager. But a large proportion of consumption is in the form of social goods such as housing, utilities, healthcare and education, which for the most part are provided free, or at nominal cost. And while the food rations sound very basic, there are ample supplies of staples like rice and beans and also limited supplies of eggs and fish, which are rationed mainly because they are sold at far less than market prices. For example, a pound of rationed rice costs 0.24 pesos, about one cent. Each person is entitled to four pounds per month at this price. But a pound of rice in a private market was selling at about 5 pesos (about 25 cents) in early 2001, reflecting the fact that Cuba is a net importer of rice. Thus, the rationing does not limit the amounts of food a person can buy. In spite of the recent difficulties, the poorest Cubans are still better off than many of their counterparts in other parts of Latin America.

GENDER CONSIDERATIONS

Relationships between Cuban men and women are more complex than they are for their Canadian counterparts. The liberation of women was a significant feature of the revolution. Cuban women are well represented in positions of importance. They hold many senior government positions and are very prominent in the scientific community. On the other hand, the liberation of women has not suppressed the sexual undercurrents of business relationships to the extent that it has in Canada.

Canadian women business executives will be treated with respect by their Cuban counterparts but they should be prepared for an underlying *macho* attitude from men. This may involve comments about a woman's appearance that would be considered inappropriate in Canada. Canadian women have found that even though it takes longer to establish business relationships with Cuban men, they can still operate quite successfully in Cuba. Female executives with experience in Cuba stress that a woman cannot disregard gender as she might in Canada, and it takes considerable tact to keep relationships on a business level.

Cubans of both sexes, like many other Latin Americans, have more liberal attitudes towards sex than Canadians do. On the street, women may be the subject of comments about their bodies or even sexual propositions. Cuban women are not offended by this, and generally laugh it off, or respond in kind. Canadian women executives handle these situations in their own ways, but it is best to be prepared.

The Cuban government has taken firm action to control prostitution, and has been successful to a large extent, but persons brokering sexual services may approach visitors of either gender. The Cuban approach to prostitution can be confusing for some foreigners. Access to many necessities and all luxuries requires a source of hard currency. Some Cuban men and women seek ongoing relationships with visiting business executives for the simple purpose of gaining access to luxuries like restaurant meals and high-quality clothing. Since they don't ask for cash, they may not appear to foreign visitors as prostitutes in the conventional sense. Aside from the moral and health considerations, visiting Canadians should be aware that Cuban officials do not make such fine distinctions. Female *jineteras*, as they are known, and their male counterparts, are regarded as a national embarrassment. From a business perspective, associating with such persons will reflect badly on the visitor in Cuban eyes.

RESEARCHING THE CUBAN MARKET

Gathering market research and intelligence is an essential part of the preparation of an export strategy. This process is more difficult in Cuba than in most other countries, because there are few sources of information and analysis that are independent of the government and the media are not free to disseminate accurate descriptions of emerging developments. Although the publication of official statistics has recently been upgraded, official industry statistics are incomplete by developed-country standards.

The Cuban regulatory system could hardly be described as transparent. Critical regulatory information is sometimes released casually by mention during speeches or informal meetings with government officials. The National Statistics Office now publishes an annual report, but it is not even vaguely comparable in quality or quantity to information provided by Statistics Canada. For the most part, important business information must still be collected through interviews, usually with government officials or with executives of government enterprises. Even then, certain details remain shrouded in secrecy.

CUBAN MARKET RESEARCH AGENCIES

There are several official government market research services in Cuba. Foreign executives have expressed disappointment with the depth, quality and cost of the work performed by some of these organizations. The three services described in this section enjoy the best reputations, but users should keep in mind that they are not independent of the government. They may have close links to the Cuban subsidiaries that Canadian companies negotiate with. It is therefore essential to protect confidential commercial information. The Cuban government has recognized the needs of foreign companies to have access to independent business and investment advisors and a number of consulting firms have recently been licensed. The contacts section of this guide includes details for a number of providers of business services, both government-owned and independent.

Centro Para la Promoción de Exportaciones Cubanas

The *Centro para la Promoción de Exportaciones Cubanas (CEPEC)*, Cuban Centre for Export Promotion, was created in 1994 to carry out market studies and help to match Cuban exporters with foreign buyers. *CEPEC* is part of the *Ministerio del Comercio Exterior (MINCEX)*, Ministry of Foreign Trade. It has produced a Directory of Exporters, which is classified by Harmonized System (HS) codes. *CEPEC* is also responsible for disseminating what it refers to as "Cuba's Export Offer" through trade missions around the world. This organization is a member of the World Association of Investment Promotion Agencies under the auspices of the UNCTAD.

CEPEC offers market research services to foreign companies interested in exporting to Cuba or forming joint ventures with Cuban entities. It maintains a database of Cuban importers and will undertake market studies for Canadian companies on contract. Further information is available on-line: http://www.infocex.cu/cepec/default_i.htm

Centro Internacional de La Habana

Centro Internacional de La Habana is a consulting agency that is part of the *Ministerio de Educación Superior (MES)*, Ministry of Higher Education. This organization conducts market research, company formation and feasibility studies, and can organize a full program of accompanied meetings with qualified Cuban contacts, in both French and English.

Business Tips on Cuba (TIPS)

TIPS was initially set up as an international English/Spanish newsletter in 1992. It is published by Cuba's *Sistema de Promoción de Información Tecnológica y Comercial*, Technological and Commercial Information Promotion System. Since then, TIPS has evolved into a fully-fledged monthly business magazine, with editions in seven languages distributed in 76 countries. This publication is available on the Internet (http://www.cubatips.com). In addition, TIPS produces a series of sectoral bulletins, which are available by subscription. The magazine is distributed in Canada by a local agent.

TIPS is a Cuban government trade promotion vehicle, and its writers do not provide critical assessments of government announcements. As a result, its articles tend to present a rosy picture of economic development in Cuba. In spite of this bias, it is a good source of news on current business events, and Canadian executives and market researchers can use this information to locate sources of more balanced information.

TIPS is also in the consulting business. Its close government connections allow it to set up contacts with any Cuban entity that might be a potential customer or partner. The company has offices in all of Cuba's 14 provinces. A company official said in an interview that it was nearing completion of an expansion to include offices in all 168 Cuban municipalities.

TIPS also provides a good advertising medium for Canadian companies seeking to make their products known. Prices range from US $2,000 for a full page to US $500 for one-sixth page ad. TIPS is conveniently located within a few doors of the Canadian Embassy in Havana, and is represented in Canada by Intersocietal Inc. This company maintains a web site (http://www.cam.org/~interso/) and can be contacted by e-mail at interso@cam.org.

CENTRO DE COMERCIO HABANA

The *Cámara de Comercio de la República de Cuba,* Chamber of Commerce of the Republic of Cuba, launched a new service called *Centro de Comercio Habana*, Havana Commercial Centre, in early 2001. The modern new facility in the Chamber's compound features a commercial information centre, a documentation centre and an Internet café. Several databases are available on-line, including publications that previously were available only for purchase in hard copy. The on-line service can be accessed over the Internet for a subscription fee of US$ 75.00 per year. Business visitors can buy a smart card allowing 5 hours of access for US$ 12.00 at the Internet café.

The free portion of the Chamber's web site (http://www.camaracuba.com/) includes a calendar of trade fairs, a newsletter, a directory of Chamber associates, and a searchable database of business demands and offerings. The subscription-based service, called *Campus Empresarial,* contains several useful databases. They include directories of authorized importers, registered agents of foreign companies, and registered branches of foreign companies. There is a system for the on-line exchange of offers and demands, along with a collection of market information and trade statistics. Laws relevant to foreign investment and trade are also available.

At time of writing, the Chamber's service was not yet fully operational, and it was not possible to conduct a hands-on review of the *Campus Empresarial*. But a tour of the *Centro de Comercio Habana* facility and interviews with the staff indicate that this service will be of significant value to Canadian companies researching the Cuban market.

Cuba on the Internet

There is probably no nation in the world where information management as well as outright disinformation plays a larger role than in Cuba. Few of the sites on the Internet devoted to Cuba reflect an independent viewpoint. Many of them are operated by Cuban dissidents in other countries and are highly political. All the sites located in Cuba are government-controlled. The few business-oriented sites can be divided between those designed to promote business in Cuba now, and those aimed at Americans interested in a post-Castro Cuba.

THE CUBAN GOVERNMENT CUBAWEB (http://www.cubaweb.cu/) contains links to a number of publications including *Granma*, the official newspaper. It also includes the full text of key laws and a calendar of upcoming trade events.

PRENSA LATINA (http://www.prensa-latina.org/) is a Cuban government-operated news feed service.

BUSINESS TIPS ON CUBA (http://www.cubatips.com) is a monthly business magazine published by a government-owned trade promotion group in Cuba. The web site includes the full text of recent issues and is a good source of business news.

CUBAWEB (http://www.cubaweb.com/eng/index.html) is an American site with the same name as the official Cuban government service. It is oriented towards a "post-Castro Cuba." Nonetheless, it includes a reasonably balanced collection of business news as well as many links to related sites.

CUBANEWS (HTTP://WWW.CUBANEWS.COM/) is an American site, primarily oriented towards promoting sales of the publisher's subscription service, but also containing free sample articles.

CHAMBER OF COMMERCE OF THE REPUBLIC OF CUBA (http://www.camaracuba.com) is operated by a Cuban government agency and provides both free and subscription-based information, including on-line databases.

EL ECONOMISTA DE CUBA (http://www.eleconomista.cubaweb.cu/) provides current economic and business news stories.

CUBADAILY (http://www.cubadaily.com/) provides daily Cuban news items of general interest.

CUBATRADE (http://www.cubatrade.org/) is published by the US-Cuba Trade and Economic Council, based in New York. It is a non-political business-oriented site. It includes many unique items, including a list of foreign companies active in Cuba as well as the names of the 30 American companies that hold 56 percent of all certified claims against Cuba.

CUBAN REVIEW (http://www.globalreflexion.org/cubanrev/index.htm) is a European on-line periodical specializing in Cuban affairs, published by the Amsterdam-based Global Reflexion Foundation.

UNIVERSITY OF TEXAS, Latin America Information Centre (http://www.lanic.utexas.edu/la/ca/cuba/) is an academic site featuring links to key sources of Cuba information.

THE WASHINGTON POST (http://www.washingtonpost.com/wp-srv/inatl/longterm/worldref/country/cuba.htm) A collection of recent news articles concerning Cuba.

LOCATING SOURCES OF CAPITAL

Cuba is not a member of the International Monetary Fund (IMF), and does not receive funding from international lending institutions such as the World Bank or the Inter-American Development Bank. Canada's Export Development Corporation (EDC) has provided limited assistance, mostly in the form of short-term insurance and project financing. The Canadian Commercial Corporation (CCC) assists Canadian exporters with sales to foreign governments, by acting as a prime contractor and guarantor for the sale. It also arranges pre-shipment export financing for small-and medium-sized exporters. The Canadian International Development Agency, under the Industrial Cooperation Program (CIDA/INC), also has a Cuba program that provides cost sharing for feasibility studies and training.

A variety of financial services companies provide financing for Cuban and foreign firms, mainly on a short-term basis. *Interholdings* is responsible for managing the capital of the state insurance company and it offers limited financing, including factoring on trade transactions to both Cuban and foreign firms. *Interholdings* has an association with MFI Export Finance Inc. of Don Mills, Ontario. Other financial services companies with operations in Havana include Caribbean Finance Investments Ltd. (CariFin), Caribbean Finance Corporation (CFC), Dynafund, Commonwealth Development Corporation, and *Finsa*, among others. Further details are provided in the contacts section of this guide.

ADVERTISING

Advertising directed to the Cuban public is discouraged and for the most part commercial messages must be aimed at tourists and the expatriate community. There are a number of vehicles available for this type of advertising. Examples include *Opciones* magazine, *Cubavisión Internacional* (TV service in tourist hotels), and display advertising at airports, tourist sites and sporting events. Commercial advertising must be placed by approved Cuban entities, which include Premium Publicity, *Publicitur*, *Propaganda Nacional*, *Graphitel*.

TRADE SHOWS

Trade shows are a cost-effective way for Canadian companies to assess the Cuban market and make contact with potential customers and partners.

The largest cross-sector trade show, the Havana International Fair, is held at *ExpoCuba* in Havana at the beginning of November each year. The Trade and Economic Section of the Canadian Embassy in Havana has traditionally organized a Canadian National Pavilion at these shows. The size of the pavilion is limited and the demand is high, so companies wishing to participate should register with the Embassy as early as May or June. This can be done by fax at (011-537) 24 2044.

Several industry-specific events are held on a regular basis, nearly all of them located at the *PabExpo* complex in Havana and organized by the *Palacio de las Convenciones*, listed in the contacts section of this guide. The *Hotel Palco*, a modern 4-star facility, is located near to the *PabExpo* facility. The hotel phone and fax numbers are (537) 24-7236 and (537) 24-7235 respectively. An accompanying table lists the key annual events. The event scheduling shown reflects recent experience but is not definitive. Details of upcoming events can be obtained by sending a request by email at Pabexpo@pabexpo.get.cma.net. A calendar of trade fairs is also available at the website of the Cuban Chamber of Commerce: http://www.camaracuba.com/

Regular Trade Shows in Havana

Event Name	Industry Focus	Timing
PABEXPO	Books	Annual
EXPOAGUA	Water industry	Annual, February
CUBASPORT	Sports and leisure	Annual
LACTO	Dairy industry	Annual, March
FIART	Arts and crafts	Odd years, March
INFORMATICS	Informatics and communications	Annual
FERIA AGROPECUARIA	Farming and ranching	Annual, March
ALIMEXPO	Food and packaging	Even years, March
SALUD PARA TODOS	Medical technology	Odd years
FECONS	Construction	Annual, April
TECNOTUR	Technology and products for the tourism industry	Annual, May-June
EXPOAZUCAR	Sugar industry	Even years, June
CUBADISCO	Music	Annual, May
CUBAMODA	Fashion	Annual, July
FERMAR	Nautical products	Annual, July
METANICA	Second hand technology, equipment and parts	Annual, July
FIT	Transportation	Annual, September
HAVANABELL	Beauty products	Annual, December

Source: Centro para la Promoción de Exportaciones Cubanas, July 2000.

ARE YOU READY FOR CUBA?

The information presented in this profile of the Cuban market makes it clear that, while there are many opportunities in Cuba, this market is not for the risk-averse or the unprepared. Market conditions are in a constant state of flux. Cuba lacks the hard currency needed to provide some of its needs, and payment practices have deteriorated recently. Canadian companies should not consider entering the Cuban market until they have identified a solid market opportunity for their goods or services. Good ideas are not enough. The Canadian company must have a product, technology or way of doing things that is not easily duplicated by competitors or partners. Otherwise, Cuban officials may ask Latin American, European or Asian competitors for more comprehensible quotations for the same product or idea.

The regulations governing Cuba's new duty free zones are liberal and virtually every aspect of joint venture could be negotiable. But tax breaks and concessions on their own are no substitute for a sound business plan. Before proceeding, the Canadian company must have a well-developed export strategy, which includes a complete understanding of the Cuban business environment. It must also have the resources to stay in the market for the long haul because it can take at least a year and often more to conclude a joint venture or economic association agreement. Even the external provision of goods from Canada can take several trips to Cuba. Therefore, companies should consider whether they are prepared to commit the necessary resources before venturing into the market and should ask themselves the following questions:

- **Does the company have a competitive or unique product or service?** There are many ways to be competitive. This could include a product with a sizeable market share in Canada, or one that has unique applications in Cuba.
- **Is there a "champion" within the firm promoting the Cuban venture?** At least one Canadian in the firm must be dedicated to, and knowledgeable about Cuba and have Spanish-speaking capability. This person must understand exporting in general as well as the Cuban environment. There must be clear support from senior management.
- **Are adequate financial resources available?** Exploring the Cuban market is a fairly expensive proposition. Market research must be conducted and the product launched into an unfamiliar market. Many personal visits will be required before a company can expect to conclude a deal.

- **Is sufficient production capacity available?** The company must be prepared to meet increased demand, as well as to adapt the product to meet unique needs or tastes of the Cuban market.

For companies that are export ready, and have researched the Cuban market, assistance is available from officials of the Canadian Embassy in Cuba. They can help to identify contacts within the Cuban government and can facilitate introductions. But they can do little to help Canadian entrepreneurs who are just shopping around for ideas. Business executives should thoroughly plan their visits and allow plenty of time to prearrange meetings. But even with thorough planning, Canadian exporters must be prepared for surprises. The mechanisms for negotiating partnerships and issuing licences are not transparent. Identifying the person who is in a position to make deals can be frustratingly difficult and the players may change during negotiations. To help insure success, there should be continuity on the Canadian side.

Consultants who represent anonymous investors or exporters will not be well received in Cuba. Government officials do not like to work through intermediaries because they see this as draining scarce resources from the proposed project. Moreover, Canadian Embassy officials will want to understand the capabilities and export experience of the principals involved. To protect Canadian credibility in this market, Embassy officials limit introductions to those that they deem appropriate.

In spite of these cautionary notes, there are many opportunities in Cuba for Canadian companies that have the necessary products, financing, know-how and staying power. Canadian exports to Cuba increased almost 58 percent in 1997 and 1998 combined. Cuba is Canada's largest export market in the Caribbean and the fourth largest in Latin America. Moreover, Canadian investment in the island has now passed the C $1 billion mark.

WHERE TO GET HELP

The Canadian Trade Commissioner Service helps new and experienced companies that have researched and selected their target markets to save time and money by obtaining information in Canada. To learn more, contact Team Canada Inc. at 1-888-811-1119. Further information is also available on the Internet at http://www.infoexport.gc.ca/cu . For specific information on Cuba, including an electronic version of this guide, go to http://www.infoexport.gc.ca/docs/view-e.asp?did=214&gid=193 .

HELP US SERVE YOU BETTER

Before contacting the Trade Commissioner Service, your company must register with WinExport client database by calling 1-800-551-4946. This registration service is free.

When seeking export assistance, you will be asked to briefly describe your company and your export plan. The following are typical questions asked by Cuban clients and contacts:

1. What is unique or special about your company, product or service?
2. Who are the end-users of your products or services? Who do you sell to in Canada and abroad, and how?
3. Why are you targeting Cuba? What do you know about this market?
4. How do you plan to enter the market: export, licence or joint venture?
5. How would you describe the typical buyer, distributor, agent or partner you want to work with in Cuba?
6. When do you plan to visit the Cuban market? Have you considered adapting your product or service literature to the market (translation into Spanish, etc.)?

PUT YOUR PLAN IN GEAR BY USING THE TRADE COMMISSIONER SERVICE

Once you have developed a solid plan for exporting to Cuba, you can contact the Trade Commissioner Service of the Canadian Embassy in Havana. The best method is to send a fax to (011-53-7) 24-2044 or an email to havan-td@dfait-maeci.gc.ca. Replies are usually provided within five working days, and all requests are treated as confidential. The following services are available:

Market Prospects

We will help you to assess your potential in Cuba through the following services:

- advice on doing business in Cuba;
- an indication of major barriers;
- information about regulations and certifications;
- notification of upcoming events such as trade fairs, conferences, seminars, and trade missions; and
- suggestions for next steps.

We may have market reports available for some sectors. If you need additional market research, we can refer to you local firms.

Key Contact Search

Need a list of qualified contacts in Cuba? We can get it. These sources have the local knowledge you need to refine and implement your market entry strategy. The list can include such items as potential buyers, partners, agents, manufacturer's representatives, distributors, importers, consultants, accountants, government officials, associations, chambers of commerce, freight forwarders, shipping lines, lawyers and patent attorneys, technology sources and financial institutions. We will let you know of any charges for access to specialized databases.

Local Company Information

We will provide information on local organizations or companies you have identified. You will always be informed of any access charges for specialized databanks. There are no specialized credit checking agencies in Cuba.

Visit Information

Once you decide to visit Cuba to start doing business, we can provide practical advice on timing and organizing your trip. Our website (http://www.infoexport.gc.ca/cu/menu.htm) includes a list of local hotels, business support services, interpreters and translators as well as local transport providers. Please use your travel agent to make appropriate hotel and travel arrangements.

Face-to Face Briefing

One of our officers (Canadian or local) will meet with you personally to discuss the most recent developments in Cuba and your future needs. Please notify our office of your visit at least two weeks before your departure.

Trouble Shooting

Do you have an urgent business or market access problem? Call us for help. We cannot, however, enter into private disputes or act as customs brokers, sales agents, collection agents or lawyers.

Need More Help?

In certain situations, we can provide services in addition to those mentioned above. If you need more service, don't hesitate to discuss your needs with us. If we are not in a position to offer the service you require, we can refer you to a qualified third-party who will typically charge a fee.

How to Contact the Trade Commissioner Service in Havana

By Mail:

Trade and Economic Section
Canadian Embassy
P.O. Box 500
(Havan) Ottawa, Canada K1N 8T7

In Havana:
Trade and Economic Section
Canadian Embassy
Calle 30 No. 518 esq. a 7ma.
Miramar, La Habana
Havan-td@dfait-maeci.gc.ca
Telephone (011-53-7) 24-2516
Fax (011 53-7) 24-2044

CONTACTS

FINANCIAL SERVICES COMPANIES

MFI Export Finance Inc.
156 Duncan Mill Road, Unit 15
Don Mills, Ontario M3B 3N2
Tel: (416) 391-3535
Fax: (416) 391-4843
Mr. David Harding, President (Mobile while in Cuba 80-4931)

Commonwealth Development Corporation (CDC)
Caribbean Finance Investments Ltd. (CariFin)
Calle 22 No.313 e/ 3ra y 5ta Miramar
Ciudad de La Habana
Tel: (53-7) 24-4147/48/49, 24-4468/69/70
Fax: (53-7) 24-4460, 24-4140, 24-5950
Mr. Paul Nabavi, Excecutive President for CariFin
Mr. Steven McQueen, Director General for CDC

Corporacion Financiera Habana (CFH)
Miramar Trade Centre
Edificio 1-A
3er piso, Locales 3041305 3ra Ave. el 78 y 80
Miramar
Tel: (53-7) 24-3611,24-3705, 24-3654
Fax: (53-7) 24-3706
Mr. Jose M. Oabrio Achabal, Director General
Mr. Roberto Hernandez, Commercial Director

FINCOMEX Ltd.
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Calle 0 No.2 el Linea y 17
Vedado
Tel: (53-7) 33-3933135, 33-4205
Fax: (53-7) 33-3412
Mr. Hector Rodriguez Llompart, President
Mr. Andreas Binkler, Director

Financiera Nacional (FINSA)
Calle G. No.301 esq. a 13
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Tel: (53-7) 33-8863, 55-3177
Fax: (53-7) 66-2232
Mr. Conrado Sanchez, Director of Operations

Dynafund DH International
1717 Rene Levesque East
Montreal, Quebec H2L 4T3
Tel: (514) 590-4110
Fax: (514) 590-4199
President: Mr. Joel Gaillard
Office in Cuba: Dynamic Holding
Calle 17-8 Casa de Protocolo #104 el 164 y 174
Cubanacan
Tel.: (53-7) 28-7801 through 03
Fax: (53-7) 28-7804
Email: trc@dynahold.com
Ms. Mercedes Moreno Pastrana, Economic Manager
Ms. Hortensia de la Lastra, Commercial Executive

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Miramar
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Fax: (53-7) 24-5487
Mr. Jose Julio Rodriguez, President
Mr. Jose Luis Conde, Director for Credits

NOVAFIN Financiere
Miramar Trade Centre Edificio 1-A, Oficina 205
3ra Ave. el 78 y 80
Miramar
Tel: (53-7) 24-4905
Fax: (53-7) 24-4906
Mr. Francesco Valerio, President

OTHER BUSINESS SERVICES

Berger, Young & Associates Ltd.
(Independent consulting firm serving companies entering the Cuban market)
Desamparados No.166
Habana Vieja, Ciudad de La Habana
Tel: (53-7) 61-1400, 80-5599, 80-5333
Fax: (53-7) 61-1575
Email: info@bergeryoung.com
Mr. Cameron Young, Director

Centro Internacional De La Habana
(Consulting agency that is part of the Ministry of Higher Education)
41 #1003 *e/* 9na y 11na
Miramar, Ciudad de La Habana
Tel: (537) 24-1802
Fax: (537) 24-1859
Mr. Arturo Rodríguez, Director

Centro Para La Promoción de Exportaciones Cubanas (CEPEC)
(Cuban government agency carrying out market studies and matching exporters with foreign buyers)
Infanta No.16
Vedado, Ciudad de La Habana
Tel: (537) 70-9064, 74-3223/2714
Fax: (537) 66-2220
Mrs. Olena Navas, Director

FOREIGN BANKS WITH OFFICES IN CUBA

Banco Bilbao Vizcaya Argentaria -BBVA- (Spain)
5ta Ave. No. 4205 e/ 42 y 44
Miramar
Tel: (53-7) 24-9278, 24-0600
Fax: (53-7) 24-9279
Mr. José Pastrol Pató, Representante.

Banque Nationale de Paris BNP PARIBAS (France)
Miramar Trade Centre
Edificio B, Oficina 407
3ra Ave. e/ 78 y 80
Miramar
Tel: (53-7) 24-8854 Secretario: Marcelo
Fax: (53-7) 24-8856
Email. bnpcuba@ip.etecsa.cu
Mr. Danny Barthe, Representante:

Banco De Sabadell (Spain)
Miramar Trade Centre
Edif. Jerusalén 3er piso, Ofic. 306
3ra e/ 78 y 80
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Fax: (53-7) 24-5487
Mr. Luciano Méndez Sánchez, Representante.

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Fax: (53-7) 24-3706
Mr. Manuel Núñez Fernández, Representante.

Fransabank, SAL (Lebanon)
Calle 72 No. 505 e/ 5ta y 5ta-A
Miramar
Tel: (53-7) 24-9272, 24-9305/06
Fax: (53-7) 24-9273
Email: frsbkaak@ceniai.inf.cu

Abdo Jamous, Representante.

Havana International Bank Limited
Calle 112 esq. 5ta
Miramar
Tel: (53-7) 24-7944/45
Fax: (53-7) 24-8985
Mr. Aldo Victoria, Representante.

ING Bank (Dutch)
5ta Ave. No. 6407 esq. 66
Miramar
Tel: (53-7) 24-0419/20/21, 24-9520/21
Fax: (53-7) 24-0472, 24-7084
Mr. Peter Bombeld, Representante.

National Bank of Canada (Canada)
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Mr. Alberto Boza Hidalgo Gato, Representante.

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5ta Ave. No. 6407 esq. a 66
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Tel: (53-7) 24-0419/20/21, 24-9520/21
Fax: (53-7) 24-0472, 24-7084
Mr. Carel G. López, Representante.
Mr. Juan A. Gómez, Vicerrepresentante.

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Mr. Juan Carlos García-Cordero, Director-Representante.

Société Générale (France)
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Lamparilla No. 2
Habana Vieja
Tel: (53-7) 66-9813/14
Fax: (53-7) 66-9808
Mr. Daniel Puton, Presidente and Director General
Mrs. Françoise Madelin, Representante.

COURIER SERVICES

Hellmann Worldwide Logistics
Toronto, Canada:
Tel: (800) 948-1148
Email: amelo@hellmann.net
Web page: www.ca.hellmann.net
Havana, Cuba:
Zona Franca Wajay
Tel. 55-8841
Fax 55-8844
Email: hwlhav@ceniai.inf.cu

DHL International Express Ltd.
6205 Airport Rd., Bldg. B,
Suite 400
Mississauga, ON L4V 1 E1
Tel: (800) 387-7783; (416) 240-9999
Fax: (416) 244-9409
Web page: www.dhl.com

CANADIAN FREIGHT FORWARDERS DEALING WITH CUBA

Cole Freight Inc.
840, 138 - 4th Avenue S.E.
P.O. Box 2718. Stn. "M",
Calgary, Alberta T2P 3C2
Tel: (403) 262-2771
Fax: (403) 262-7165
Mr. Jim Mochulsky, Manager, Marketing & Operations
Mr. Pedro Rueda, Executive for Cuba

Beacon International Despatch Limited
P.O. Box 820, 14 Holiday Drive
Branford, ON N3T 5R7
Tel: (519) 756-6483
Fax: (519) 756-6800
Email: gary@beacon.ca or branford@beacon.ca
Mr. Gary J. DeBrusk, National Airfreight Manager

Atlas International Freight Forwarding Inc.
2450 Anson Drive,
Mississauga, ON L5S 1G2
Tel: (905) 673-5005
Fax: (905) 673-5079
Mr. Ken Singh, Vice-President - Marketing

Bekar Importaciones - Exportaciones S.R.L.
Edificio Someillán, Piso 10
Línea No. 5
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Tel: (53-7) 33-3203
Fax: (53-7) 33-3714

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Ms. Carmen Berrocal, Representante

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407 McGill St., Suite 705
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Ing. Máximo López, Manager

Norgate Lines (Seachart Marine Inc.)
620 St-Jacques, Suite 300
Montreal, PQ H3C 1C7
Tel: (514) 874-1999
Fax: (514) 874-0407
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Mr. Elias Hage, International Coordinator

OCEAN CARGO SERVICES

Norgate Lines (Seachart Marine Inc.)(Canadian)
620 St-Jacques, Suite 300
Montreal, PQ H3C 1C7
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Fax: (514) 874-0407
Email: ehag@hotmail.com
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Navis Shipping Inc. (Canadian)
1 Canal St.
Darmouth, NS B2Y 2W1
Tel: (902) 279-6680
Fax: (902) 463-2210
Mr. Bill Smithers

Coral Container Line (Cuban)
Oficios No. 170 1er Piso
Habana Vieja
Tel: (53-7) 57-0925
Fax: (53-7) 33-8123
Mr. Ricardo Ferrero or Claudio Perez
Canadian Agent: Robert Reford
Montreal:
Tel: (514) 845-5201

Fax: (514) 845-6490
Toronto:
Tel: (416) 703-9681
Fax: (416) 703-9690
Halifax:
Tel: (902) 423-6111
Fax: (902) 423-0177
Vancouver:
Tel: (604) 685-0131
Fax: (604) 685-2241

Melfi Marine Corporation (Cuban)
Calle Oficios No. 410
Habana Vieja
Tel: (53-7) 33-8022 and 33-8024
Fax: (53-7) 33-8018
Canadian Agent: Protos Shipping Ltd.
Email: kay@protos.ca
http://www.protos.ca
Toronto:
Tel: (416) 621-4381
Fax: (416) 626-1311
Halifax:
Tel: (902) 421-1211
Fax: (902) 425-4336
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Fax: (514)866-7077

CUBAN GOVERNMENT AGENCIES

Nutrition and Food Hygiene National Institute
María Victoria Luna Martínez
Chief Registry, Control and Hygiene Quality Division
Instituto de Nutrición e Higiene de los Alimentos
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Veterinarian Medicine Institute
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Chief External Quarantine Division
Centro Nacional de Sanidad Vegetal
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Packing and Baling National Center
Celestino Iglesias Ayora
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Consignment Agent
Eduardo Díaz Valcarcel
General Manager
Consignataria Mambisa
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Habana Vieja, Ciudad de la Habana
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Cubana Air Cargo
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Cargo Manager
Bella Vista y Lombillo
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Maritime Association
Abdias peon
Vice-General Manager
Maritime Association
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Coral Container Lines S.A
Leonardo Alvarez
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Fax: (53-7) 57 0850

International Insurance Company
Sergio Núñez González
Sales Manager
ESICUBA S.A.
Cuba No. 314 e/Obispo y Obrapia
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International Supervision and Customs Services
15. Nelson Ramos López
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CUBACONTROL S.A
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Customs Service Agency
16. Rafael Cabrera Barrio
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International Agency for Inspection and Adjustment of Damage
Raúl La Rosa Sánchez
Commercial Manager
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Tel: (53-7) 33 8078 and 33 8220/33 8222
Fax: (53-7) 33 8020

Free Zone National Office
Silvia Castañer
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